Ontario

2009 ONTARIO BUDGET

Confronting the Challenge

Building Our Economic Future

The Honourable Dwight Duncan
Minister of Finance

Budget Papers

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FOREWORD

Ontario is feeling the effects of the global economic crisis. The impact on economic growth, jobs and investments is directly affecting Ontario people, families, communities and businesses.

Job losses have hurt Ontario families. Communities have lost mills and factories. Government revenues are in decline.

The challenge is significant, but it's one the people of Ontario will meet and overcome.

This Budget lays out the McGuinty government's strategy to help families being hurt by the global recession today. But it does more than that. This Budget takes action to make Ontario more competitive. A strong, competitive economy helps families and businesses take advantage of the next generation of growth, and maintains and enhances the province's cherished public services.

Five Years of Progress

This Budget builds on the progress the people of Ontario have made over the last five years.

Five years ago, the McGuinty government was elected on its commitment to improve the public services Ontarians need to reach their full potential — public education, universal health care, modern infrastructure, support for vulnerable citizens and a greener Ontario.

Five years ago, Ontario's infrastructure, including schools and hospitals, was crumbling. Primary school classes were too large. More doctors and nurses were needed. Wait times for key medical procedures were too long. In addition, the government inherited a hidden $5.5 billion fiscal deficit.

Between 2003 and 2008, the province experienced strong revenue growth. This period of economic growth and prosperity allowed the government to make much-needed investments in key public services. The government managed its spending prudently, not allowing average expenditure growth to exceed revenue growth during this period. In fact, the government paid down debt, balanced three budgets in a row and maintained impressively low debt-to-GDP ratios.

Working together, Ontarians have made progress.

Today, there are more teachers in Ontario's publicly funded schools and more students in colleges and universities.

More families have a family doctor and patients have shorter wait times for cancer surgery, CT scans and hip replacements.

The Ontario Child Benefit is providing children who grow up in low-income families with a better start in life.

Partnerships with cities and towns are building infrastructure, such as public transit, roads and bridges, across Ontario.

The government has invested in innovative companies and cut business taxes.

The government's investments over the past five years have strengthened the key public services that matter most to Ontarians — and also strengthened the economy. Ontario's well-educated workforce, universal health care system, modern infrastructure, support for the vulnerable, and lower business costs are enormous competitive advantages.

As early as 2006, the government had recognized that economic storm clouds were gathering. A slowing U.S. economy, rising oil prices and a higher-than-anticipated Canadian dollar began to affect growth — particularly in the manufacturing and resource sectors. The government was able to continue to support its priorities because of prudent fiscal management and its five-point economic plan to encourage growth and job creation through ongoing investments in skills and knowledge, infrastructure, innovation, key partnerships and lowering business costs.

However, the scope and scale of the global economic crisis that began in the fall of 2008 were both dramatic and unanticipated by all jurisdictions. This is hurting individuals, families and businesses. Governments —including Ontario's — are facing extraordinary challenges. Revenues have significantly declined. Expenditure growth cannot continue at the same rate; spending must be smarter and better focused.

The McGuinty government is therefore determined to work with all its partners to preserve — and find new ways to deliver — the public services Ontarians want and deserve. The progress made over the past five years must be protected and enhanced.

Looking Ahead

The government will continue to build on the success of its five-point economic plan through investments in skills and knowledge, infrastructure, innovation, key partnerships and lowering business costs.

It will also do more, right now, for Ontario families and businesses affected by the global recession.

The government's infrastructure investments will create more than 300,000 jobs over the next two years. Additional investments in skills training will do more for people who have lost their jobs.

But it is not enough to just create jobs in the short term or to help Ontario's families and businesses simply get by.

The Province must also take action to build a stronger economy for tomorrow by accelerating its efforts to enhance Ontario's long-term competitiveness.

To build Ontario's economy for the future, the McGuinty government is proposing a comprehensive tax reform package.

To further boost Ontario's competitiveness, this Budget also invests in initiatives to grow a greener economy, accelerate innovation and attract investment.

In the context of the current global economic crisis and industrial restructuring, these efforts to enhance Ontario's competitiveness are more important than ever. Ontario can no longer rely solely on its traditional strengths and past competitive advantages. The world has changed. The new global economy will favour jurisdictions that are nimble, innovative and creative.

The government cannot control the external factors that are challenging families and businesses, but it can help mitigate their impact and position Ontario to take advantage of the next generation of growth. The government's goal is to ensure that Ontarians have good, well-paying jobs that allow them to succeed and support their families — today and tomorrow.

Preserving and Creating Jobs Today

Infrastructure

Modern infrastructure creates jobs today and also builds jobs and opportunity for tomorrow. The government will invest $32.5 billion in infrastructure in the next two years, creating and sustaining an estimated 146,000 jobs in 2009–10 and 168,000 jobs in 2010–11 across Ontario.

Over the past two years, the Province has invested more than $18 billion in infrastructure, including a one-time $1.1 billion payment directly to municipalities through the *Investing in Ontario Act*. These investments supported more than 85,000 jobs in 2007–08 and are creating and sustaining more than 100,000 jobs in 2008–09.

Incentives to Enhance Skills Training and Create Jobs

The skills and knowledge of Ontarians are key to the success of the province's economy. This Budget announces nearly $700 million over the next two years to expand skills training, including a proposed $50 million a year to enhance the Co-operative Education Tax Credit and to make Ontario's Apprenticeship Training Tax Credit the most generous in Canada.

This Budget also increases funding for summer jobs by 57 per cent to nearly $90 million, helping more than 100,000 young people find summer employment during these difficult times.

Sector Support

The government is committed to partnering with key sectors to help them become more competitive, so they can continue to be major contributors to the Ontario economy. This Budget announces support for key Ontario sectors, including manufacturing, agriculture, forest products and mining, which will protect and create jobs.

Creating Jobs Tomorrow

A Comprehensive Tax Reform Package

The McGuinty government is proposing fundamental reform of the province's tax system.

Starting in July 2010, subject to the approval of the legislature, Ontario would move to a single sales tax based on value-added taxation, which would boost investment and productivity.

To help Ontarians through the adjustment period, and to provide ongoing tax cuts, the McGuinty government would provide $10.6 billion in tax relief for people over three years. This includes a broad-based permanent income tax cut and payments totalling up to $1,000 for single parents and couples, and up to $300 for single people, which would be made between June 2010 and June 2011.

At the same time, the government is proposing $4.5 billion in business tax relief over three years, including a number of specific measures to help small businesses. These tax cuts would lead to job creation and economic growth.

The comprehensive tax reform package proposed in the Budget would, once fully implemented, cut Ontario's marginal effective tax rate on new business investment in half, making Ontario one of the most competitive jurisdictions in the industrialized world for new investment. This would lead to more investment by business, creating jobs and leading to higher incomes for Ontarians.

This tax reform package is the single most significant action the government can take to strengthen the Ontario economy for the long term. Overall, taxes would be lower.

Growing the Green Economy

The government is committed to attracting new investment, creating new green-economy jobs and protecting the environment, including vigorously addressing climate change. In addition to the measures introduced as part of the proposed Green Energy and Green Economy Act, this Budget announces more than $300 million in new initiatives to support Ontario's move towards a greener economy. These include a new Emerging Technologies Fund that will invest in clean technology, retrofits to public-sector buildings and a Green Jobs Skills Strategy.

Innovation

Capitalizing on Ontario ideas will be important to the province's ability to emerge strongly from the global economic crisis. This Budget proposes additional tax relief and over $700 million to boost innovation, including $300 million in capital funds over six years for research infrastructure; $100 million over four years in additional operating funds for biomedical research; $50 million over four years to enhance the successful Innovation Demonstration Fund; and $10 million over three years to the Colleges Ontario Network for Industry Innovation to help small and medium-sized businesses with hands-on applied research, technology transfer and commercialization.

Ontario's innovation success stories include the entertainment and creative sectors. To further support these sectors, this Budget proposes approximately $100 million annually to expand and enhance tax credits for film and television production, computer animation, book publishing and the creation of interactive digital media products.

Attracting Investment

Ontario's ability to attract new investment is critical to job creation and economic prosperity. The Province will continue to expand Open For Business, its plan to make government faster and friendlier for families and businesses.

Investments in Children and Families

The government remains committed to improving the quality of life for all Ontarians, and this is more important than ever during difficult economic times. This Budget advances the government's Poverty Reduction Strategy by proposing to speed up the phase-in of the Ontario Child Benefit (OCB). This would represent an additional investment of more than $400 million cumulatively from 2009–10 to 2011–12. Maximum annual OCB payments would increase from the current $600 to $1,100 per child beginning in July 2009, two years ahead of schedule. This enhancement would benefit current OCB recipients and provide payments to an additional 115,000 families with 240,000 children who were not eligible to receive the OCB in 2008.

A two per cent increase to benefits under Ontario Works and the Ontario Disability Support Program and to the comfort allowances for residents of long-term care homes is proposed for 2009–10. The government will also invest in social housing, including capital investments for housing for low-income seniors and people with disabilities.

Competitive Government

During tough economic times, the government must redouble its efforts to manage spending, while protecting core public services. The government will therefore identify $1.0 billion in efficiencies in 2011–12. It would also mandate certain procurement activities such as collaborative purchasing for the broader public sector, which are expected to result in annual savings of $200 million within the first three years of operation. As well, this Budget proposes to freeze MPPs' salaries at their current level for the 2009–10 fiscal year and reduce the size of the Ontario Public Service by five per cent over the next three years through attrition and other measures.

These initiatives build on Ontario's progress to date, including achieving more than $800 million in savings over the past five years, improving service delivery and reducing procurement costs. The government is also on track to exceed its target of $108 million in savings for the last five months of fiscal 2008–09, which was set out in the 2008 Ontario Economic Outlook and Fiscal Review.

As well, the Province held spending growth in 2008–09 to 0.8 per cent over 2007–08, the lowest in eight years.

The government will continue to transform public services in order to protect them over the long term.

Responsible Fiscal Management

The government will continue its prudent approach to managing Ontario's finances during the current global economic downturn.

To protect key public services and make the short- and long-term investments required, Ontario, like many governments across Canada and around the world, will experience a deficit. This is due to a significant deterioration in revenues and short-term measures to stimulate the economy, not to significant increases in core program spending.

The Budget forecasts a deficit of $3.9 billion for 2008–09. The deficit is expected to reach its peak of $14.1 billion in 2009–10. As a percentage of gross domestic product, Ontario's deficit is proportionally below that of the United States, and is about the same as that now anticipated by the federal government. This Budget lays out a plan to balance by 2015–16.

Between 2008–09 and 2011–12, core program spending is projected to increase by 3.6 per cent, below the government's forecast of 3.8 per cent in revenue growth over the same period. Holding spending below revenue growth is key to the government's fiscal recovery plan. Going forward, the government will work with its partners to continue to keep growth in public sector expenditures at or below the rate of Ontario's revenue growth.

Conclusion

This Budget builds on the major investments the McGuinty government has made since 2003 to support universal health care, public education, modern infrastructure, vulnerable citizens, a greener Ontario and lower business costs. These investments have protected and enhanced the programs and services Ontarians need to emerge from the current economic downturn, and they will continue to strengthen Ontario's economy and competitive advantage.

Looking ahead, the McGuinty government is committed to leading Ontario to a new era of competitiveness, success and prosperity. It will not happen overnight — no single budget by any one government in any jurisdiction can accomplish that objective in the current global economic climate. And just as this Budget builds on the progress made over the past five years, future budgets will build on the actions taken today.

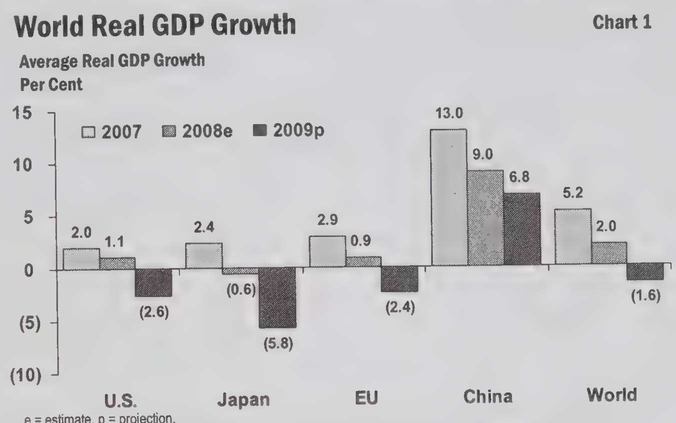
Through responsible management, a fair and balanced approach, bold tax reform and strategic investments, the government will help ensure that Ontario families and businesses get the help they need today and are poised to take advantage of the next generation of growth and jobs. A strong, competitive Ontario that thrives in the new economy will fund excellent public services and support a high quality of life for all Ontarians.

CHAPTER I

Confronting the Challenge: Building Ontario's Economic Future

INTRODUCTION

The current global economic crisis is hurting Ontario families, communities and businesses. The financial credit crisis has triggered serious economic difficulties around the globe. Most of the world's major economies are expected to be in recession in 2009, and the United States, Ontario's largest trading partner, is struggling through a severe downturn. Ontario's manufacturing sector — especially the automotive and resource-based industries — has been particularly hard hit by the U.S. credit crunch and the resulting drop in demand.

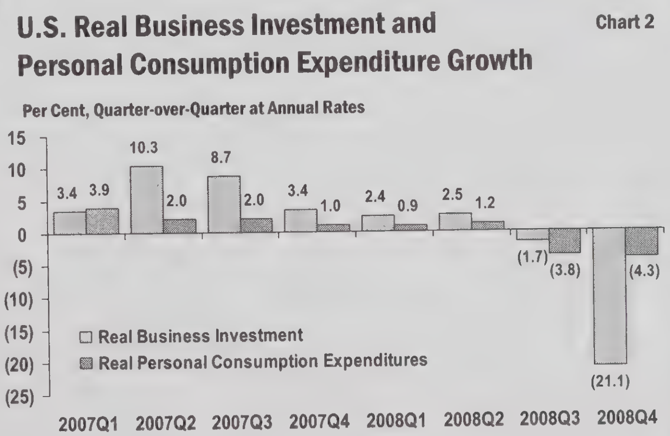


e = estimate, p = projection.

Sources: U.S. Bureau of Economic Analysis, Japan Economic and Social Research Institute, Eurostat, National Bureau of Statistics of China, International Monetary Fund, *Blue Chip Economic Indicators* (March 2009) and *Consensus Economics* (March 2009).

The global economic outlook has deteriorated significantly in recent months. Every G7 economy has declined sharply. According to *Consensus Economics*, world gross domestic product (GDP) is projected to decline 1.6 per cent in 2009.

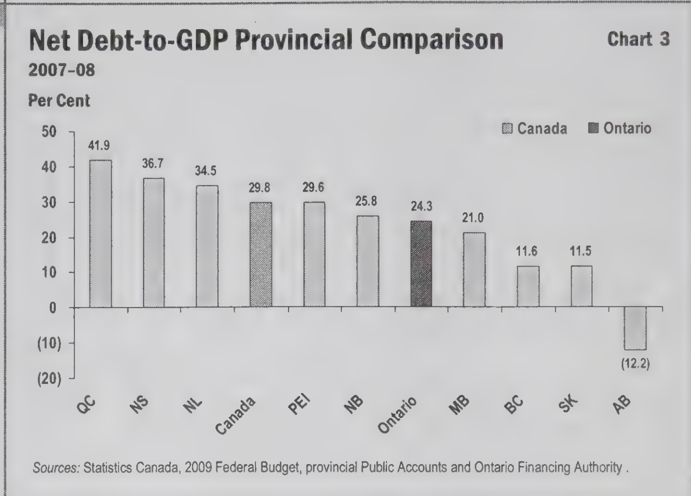
The U.S. economy — critically important to Ontario as the destination for most of its exports — is in the midst of one of its deepest downturns. U.S. housing starts and new home sales have reached all-time record lows while existing home sales and prices continue to decline. Foreclosure rates for residential mortgages continue to climb, leading to a further tightening in bank lending standards. Job losses and tighter credit conditions have led to reductions in consumer spending, particularly on durable goods such as autos.



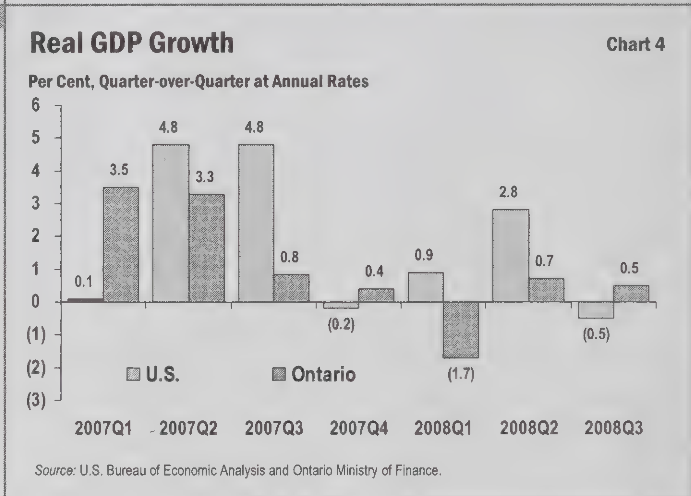
Source: U.S. Bureau of Economic Analysis.

In 2007–08, the most recent year for which data is available for all jurisdictions, Ontario's net debt-to-GDP level was below the median for the provinces and the federal government.

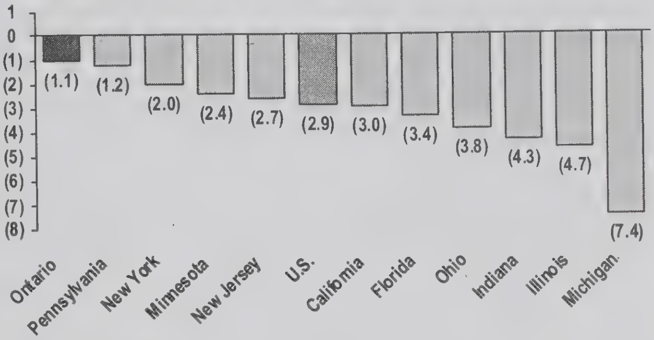
Ontario's prudent fiscal management has allowed it to reduce its net debt-to-GDP from a peak of 32.9 per cent in 1999–00 to 25.1 per cent in 2008–09. The Province's 2008–09 deficit relative to the size of its economy is one of the lowest of the industrialized jurisdictions affected by the global economic crisis. The Ontario government is well positioned to take action to provide jobs for today and for the future.



Ontario is not immune to the global downturn. Ontario's economy is in a recession that is expected to persist through the first half of 2009. Ontario's employment loss was less than that of neighbouring Great Lakes States and well below that of the U.S. economy as a whole. Growth in the global economy is expected to resume within the next year, partly due to the aggressive fiscal and monetary actions of national governments and central banks around the world. According to *Consensus Economics*, world growth is projected to rebound to 2.1 per cent in 2010 with growth in all G7 countries. The U.S. economy is expected to lead the global turnaround with growth projected to start improving in the third quarter of 2009. The Ontario economy is expected to follow the same recovery pattern as the U.S. economy with growth projected to resume during the second half of 2009 and to gain momentum in 2010 and 2011.



These conditions have created real challenges for Ontarians and underline the need for the Province to protect families and businesses now and be a leader in the economy of the future. Ontario must continue to build the foundations for sustainable future job creation and economic growth so it can continue to invest in the public services that Ontarians want and deserve.



Note: Total U.S. employment is taken from the Current Population Survey, while state employment is from Local Area Unemployment Statistics.
Sources: Statistics Canada and U.S. Bureau of Labor Statistics.

Despite the recent economic numbers, the economy has created 325,700 net new jobs since 2003. During the last five years, the government has taken important steps to help families and businesses by building and strengthening Ontario's public services, such as universal health care, public education, infrastructure, skills training, support for the vulnerable and protecting the environment. The government has moved aggressively on its five-point economic plan, building solid foundations for an innovative economy, with a highly skilled and educated workforce.

In addition to these investments, the realities of the current global economic crisis call for immediate measures to preserve jobs and support Ontarians through these challenging times. This Budget lays out the government's strategy to preserve and create jobs today and to position Ontario to be more competitive tomorrow, so families and businesses can take advantage of the next generation of jobs and growth. This strategy includes:

- investing in infrastructure, skills training and literacy, and sector support to preserve and create jobs today;
- introducing comprehensive, competitive tax reform, growing the green economy, accelerating innovation and attracting investment to help create the jobs of tomorrow;
- investing in children and families to help Ontarians during these challenging economic times and to build for the future; and
- preserving jobs and protecting vital public services through prudent fiscal management.

PRESERVING AND CREATING JOBS TODAY

This Budget announces significant measures to preserve and create jobs today. While these initiatives will help Ontarians weather the current economic crisis, they will also contribute to Ontario's future competitiveness by enhancing the province's infrastructure base, investing in the skills and knowledge of Ontario's workforce, and supporting key sectors.

INITIATIVES TO STIMULATE THE ECONOMY — PRESERVING AND CREATING JOBS TODAY

In this Budget, the government is making significant investments over the next two years to stimulate economic growth and help Ontario families. Proposed initiatives include:

- providing $32.5 billion for infrastructure projects over the next two years, supporting an estimated 146,000 jobs in 2009–10 and 168,000 jobs in 2010–11;
- increasing spending on summer jobs for youth by 57 per cent to nearly $90 million in 2009, helping over 100,000 young people this summer;
- providing nearly $700 million more over two years for a series of measures, including new or expanded skills training and literacy initiatives to help workers get the skills they need for the jobs of tomorrow;
- providing nearly $130 million over three years in new support for the agriculture, mining and forest products sectors;
- providing more than $300 million in 2009–10 and 2010–11 in new targeted business tax relief to foster innovation and the entertainment and creative sector;
- providing an additional investment of more than $400 million over the next three years to accelerate the phase-in of the Ontario Child Benefit; and
- increasing the adult basic needs and maximum shelter allowances in social assistance by two per cent.

Smart Stimulus

The global economic downturn has led to coordinated action by governments around the world to spur an economic recovery. The *American Recovery and Reinvestment Act of 2009* provides US$789 billion in fiscal stimulus to the U.S. economy. With significant job losses, central-bank interest rates near zero, and falling consumer demand, the case for stimulus is strong.

National governments have played their part in advancing stimulus plans, but other levels of government can also play a role in helping economies turn the corner to recovery. As Canada's largest province, Ontario will play its part in helping the economy recover. As such, this Budget includes significant fiscal stimulus — actions that build on the considerable investments the Province has consistently been making since before the beginning of the economic downturn.

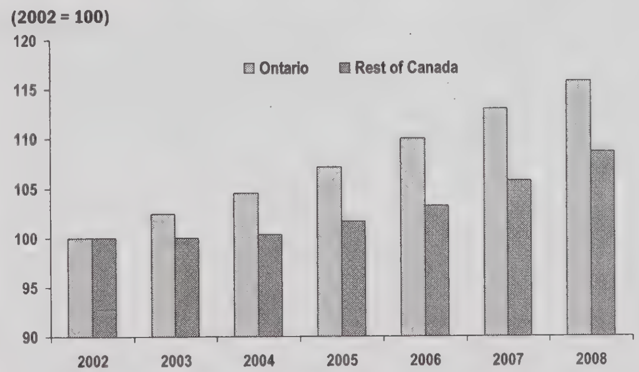
Ontario believes that stimulus must be smart. Ontario's stimulus plan is not only significant in size; it is designed to be highly effective in restoring growth, and in saving and creating jobs. The government's actions meet the following key criteria:

- Timely — The government will build on its strong record of making significant, timely infrastructure investments, focusing on quick-start projects. It will also provide relief for families that will take effect quickly, when it is needed.
- Targeted — The government's strategic investments will ensure the maximum yield in jobs and economic activity for each taxpayer dollar spent. Two key aspects of Ontario's stimulus plan, infrastructure investments and help for low-income Ontarians, have high "multiplier effects."
- Temporary — The government's plan consists largely of short-term strategic investments that will preserve and create jobs today, while preserving future fiscal flexibility.
- Fiscally responsible — The short-term nature of a large majority of the government's new capital investments allows for a prudent, realistic plan to return to balance by 2015–16.
- Help for the vulnerable — Through significant investments in training, the government will provide help for laid-off workers, new Canadians and other groups most affected by the downturn. By accelerating the Ontario Child Benefit and helping those on social assistance, the government will also provide timely help for low-income Ontarians.
- Strengthen Ontario's future — Ontario's stimulus plan will pay a double dividend — positioning the province for the future while restoring the economy today. Investments in transit, higher learning, social housing, the green economy and other key areas will not only create jobs today; they will ensure Ontario emerges from the current downturn stronger than ever.

Infrastructure

Infrastructure investments provide jobs in the short term and build foundations for tomorrow — moving people, goods and ideas faster and more efficiently. Investing in infrastructure has been a critical part of the government's five-point economic plan.

Per Capita Change in Public Infrastructure Chart 6



Index shows the change in per capita real public infrastructure stock, adjusted for depreciation (linear).
Sources: Statistics Canada, Ontario Ministry of Finance and Ministry of Energy and Infrastructure.

The government's ambitious $30 billion ReNew Ontario investment plan will be completed in 2008–09, a full year ahead of schedule, and has helped to address the significant infrastructure deficit that built up over the three decades prior to 2003.

Projects such as the expanded crossing at the Queenston-Lewiston Bridge in Niagara, the new international truck route in Sault Ste. Marie, and the new high-occupancy vehicle (HOV) lanes on Highways 403 and 404 have all helped to improve Ontario's transportation network. These investments enhance Ontario's long-term competitiveness by lowering business costs and boosting productivity, while improving the quality of life of Ontarians.

At the same time, the Province has been investing in the infrastructure that supports the public health care and education systems valued so much by Ontarians. Currently, the Province has over 40 hospital projects under construction. More than 15 of these are expected to be completed in 2009–10, including Quinte Health Care in Belleville, Trillium Health Centre with locations in Mississauga and Toronto, Hamilton Health Sciences General Site, and Sudbury Regional Hospital Phase 2. Construction on nine additional hospital projects is scheduled to begin in 2009–10, and a planned investment of approximately $2 billion over the next three years will be made to advance eHealth initiatives, further modernizing the province's health care infrastructure.

In the education sector, the Good Places to Learn initiative has invested $1.3 billion to support 12,000 renewal projects at more than 2,500 schools across the province since 2005. At the postsecondary level, the government has invested $1.4 billion through the ReNew Ontario program for postsecondary campus renewal and strategic capital projects. Moreover, investments in broadband, digital media and institutions such as the Perimeter Institute have enhanced the foundation for innovation within the province, creating a climate for entrepreneurship and job creation.

Over the past two years the Province has invested in infrastructure valued at $18 billion, including a one-time allocation of $1.1 billion provided directly to municipalities through the *Investing in Ontario Act*. These investments supported more than 85,000 jobs in 2007–08, and have created and sustained more than 100,000 jobs in 2008–09.

Last fall, the government signed the Final Report of the Provincial-Municipal Fiscal and Service Delivery Review with its municipal partners, which will provide them with a net benefit of $1.5 billion annually by 2018. The agreement will increase annual ongoing assistance to municipalities by over 250 per cent since 2003, and allow them to make further investments in infrastructure and economic development.

KEY INFRASTRUCTURE PROJECTS UNDERWAY

Ontario currently has over 30 major infrastructure projects underway, each worth more than $100 million. These projects will significantly improve local hospital, justice, highway and transit services.

Selected Major Projects

- Expansion of Highway 69 to Sudbury to four lanes
- North Bay Regional Health Centre
- Expansion of Highway 11 to North Bay to four lanes — final section
- London Health Sciences Centre and St. Joseph's Health Centre — Phase 2
- Rail grade separation in west Toronto to improve service on GO Transit's Georgetown line
- Durham Consolidated Courthouse in Oshawa
- The Ottawa Hospital Regional Cancer Program (The Ottawa Hospital/Queensway Carleton Hospital)
- Kingston General Hospital and Cancer Centre for Southeastern Ontario
- Safety initiatives on Highways 11 and 17 near North Bay and in northwestern Ontario
- Sunnybrook Health Sciences Centre Bayview M-Wing
- A new third track in GO Transit's Lakeshore West rail corridor to improve train service in GO's busiest corridor
- Widening of the Queen Elizabeth Way (QEW) through St. Catharines
- Sioux Lookout Meno Ya Win Health Centre
- Widening of sections of Highway 401 near Woodstock
- Roy McMurtry Youth Centre in Brampton

An estimated total of 45,000 jobs will be created as a result of the above projects.

In this Budget, the Province is allocating $15.1 billion for infrastructure initiatives in 2009–10, and a further $17.4 billion in 2010–11. These figures, which include flow-through funding of $5 billion from the federal government, combine for a total of $32.5 billion over the next two years.

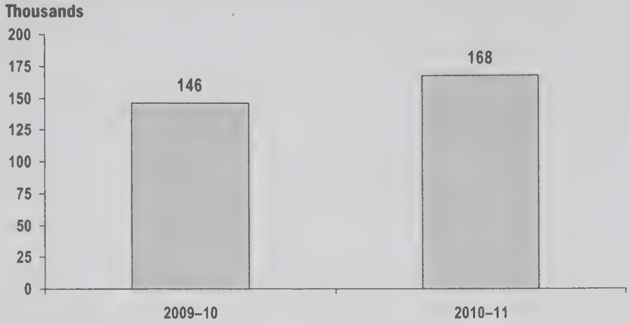
Infrastructure Expenditures ($ Millions) — **Table 1**

Sector	2009–10 Plan Total Infrastructure Expenditures	2010–11 Plan Total Infrastructure Expenditures
Transportation	4,228.4	4,814.0
Transit	1,687.1	1,505.9
Highway Construction	1,718.3	2,034.2
Windsor Gateway	247.1	715.0
Other Transportation[1]	576.0	558.9
Health	3,177.4	3,912.3
Hospitals	2,542.8	3,438.0
Other Health	634.6	474.3
Education	1,849.1	1,928.9
School Boards	1,503.6	1,608.1
Colleges	239.9	248.1
Universities	105.6	72.7
Water/Environment	259.0	274.2
Municipal and Local Infrastructure[2]	418.5	431.5
Justice	355.6	819.3
Other	1,877.0	2,350.4
New Short-Term Stimulus Investments	3,430.6	3,449.8
Total	15,595.7	17,980.3
Less: Other-Partner Funding[3]	501.0	526.0
Total Excluding Partner Funding	15,094.7	17,454.3
Less: Flow-Throughs[4]	2,390.0	2,693.2
Total Provincial Expenditure	12,704.7	14,761.1

1 Other transportation includes planning activities, property acquisition, and other infrastructure programs (e.g., municipal/local roads/remote airports).
2 Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.
3 Third-party contributions to capital investment in the consolidated sectors (schools, colleges and hospitals).
4 Mostly federal government transfers for capital investments.
Note: Numbers may not add due to rounding.

These infrastructure investments are expected to support an estimated 146,000 jobs for Ontarians in 2009–10, and a further 168,000 jobs in 2010–11. This will help create jobs in all regions of the province, covering a wide range of skills and trades. Skilled workers will remain employed, maintaining a long-term supply of skilled workers in the Ontario economy.

Estimated Jobs Created and Supported by Infrastructure Investments Chart 7



Job numbers include partner investments.
Jobs = person-years of employment.
Sources: Ontario Ministry of Finance and Ministry of Energy and Infrastructure.

Key new initiatives to create jobs now and in the future, while boosting Ontario's long-term competitiveness and standard of living, include the following:

- Social Housing Infrastructure: Together with the federal government, the Province plans to invest more than $700 million over the next two years to rehabilitate social housing and make it more energy efficient; more than $360 million to help create new affordable housing for low-income seniors and persons with disabilities; and $175 million over the next two years to extend the Canada–Ontario Affordable Housing Program, which is creating new homes for low-income families, senior citizens, persons living with mental illness, and victims of domestic violence.
- Capital Investments in Northern and Rural Ontario: $273 million for new infrastructure projects, including the widening of Highway 11/17 east of Thunder Bay, rehabilitation of bridges and safety improvements on provincial highways, remediation of the Mid-Canada Line radar sites, improvements to the winter road and resource access road networks and projects at the province's remote airports. The province plans to work with the federal government to make additional investments in some of these initiatives so that more projects can proceed in northern Ontario.
- New Highway Projects in Southern Ontario: $219 million over six years for new highway widening and other improvements on Highway 7/8 in the Kitchener/Waterloo region, Highway 406 in the Niagara region, Highway 6 in Guelph and Highway 403 in Brantford.
- Investing in Communities: New stimulus funding over two years for community infrastructure. By leveraging federal funding, approximately $780 million in new funds will be provided for municipal projects such as arenas, libraries and local transportation projects. This is in addition to the $1 billion investment with Ontario's federal and municipal partners already announced for small communities to fund projects such as building a sports and leisure centre in the Town of Bradford West Gwillimbury, replacing the Barber's Bay Bridge in the City of Timmins, and upgrading the Drayton Wastewater Treatment Plant in the Township of Mapleton.

- New Medical School Infrastructure: $35 million in capital investment to support the creation of an additional 100 medical school spaces.
- Funding for Social Agencies: More than $80 million for over 4,000 projects to undertake repairs and improve security, accessibility and energy efficiency at social service facilities used by low-income and vulnerable Ontarians across the province. The government invites its federal partner to provide matching funding so that an additional 4,000 projects may be undertaken.
- Strengthening Postsecondary Infrastructure: Approximately $780 million in capital funding for Ontario colleges and universities to modernize facilities and boost the Province's long-term research and skills training capacity. With leveraged federal funding, work could begin immediately to further renew the province's postsecondary infrastructure and launch exciting new projects at Ontario colleges and universities.
- Capital Investments in the Tourism Sector: $33 million for revitalization projects at Huronia Historical Parks and St. Lawrence Parks Commission sites, as well as $8 million for infrastructure improvements at Fort William Historical Park.
- Research and Innovation: $300 million in research infrastructure funding over six years, which could be used to leverage a further $300 million from the Canada Foundation for Innovation to support research and innovation in Ontario.

Through these and other investments, the Province will work to match the total federal infrastructure investment in Ontario announced in the 2009 federal budget as long as this meets the priorities of Ontarians. Through the infrastructure initiatives announced in this Budget, and the significant investments made through previous budgets, the government is laying the foundation for job creation and economic competitiveness, both now and in the future.

Job Creation and Skills Training

People remain Ontario's number one asset. The economic benefits of a highly educated and skilled workforce are clear. Over the past five years, the government has invested in the skills of Ontarians through the Reaching Higher Plan for colleges and universities, the Employment Ontario training network, and the Skills to Jobs Action Plan. The coming year will bring forward further developments including the proposed College of Trades Act and the delivery of Dr. Charles Pascal's report on early childhood education.

In this Budget, the government is enhancing support to help more unemployed and underemployed Ontarians prepare for the new economy. Additional transitional employment and training assistance of more than $750 million will be invested over two years in a number of critical areas. These include summer jobs, skills training, literacy, services for new Canadians, as well as proposed training tax credit enhancements. These program initiatives are supported by proposed enhancements to the Canada–Ontario Labour Market Agreement and Labour Market Development Agreement.

Summer Jobs

The government recognizes the employment challenges that youth face, especially during difficult economic times. Ontario is increasing spending on summer employment opportunities for youth by 57 per cent or $32 million in 2009, bringing spending this summer to nearly $90 million. This includes targeted resources for youth in high-needs neighbourhoods and expanded opportunities for student-led summer businesses. This significant expansion means that over 100,000 young people will benefit from support for summer employment opportunities this year, up from 73,000 last summer. The summer jobs program enhancements will continue in 2010.

Skills Training

This Budget announces nearly $700 million over two years in new skills training and literacy initiatives and enhancements to existing programs. These measures are designed to respond quickly to the short-term challenges posed by the global economic slowdown while preparing the province's workforce for the new economy. These include:

- $94 million over two years to expand support for new Canadians, including bridge training and mentorship opportunities, serving 15,000 more clients each year.
- $90 million over two years to expand literacy and basic skills training, including funding for community projects, distance learning and workplace literacy. These services will help up to 13,000 people per year. This is in addition to the $200 million annual investment in literacy and language training, helping 90,000 learners.
- $50 million annually for proposed enhancements to the Co-operative Education Tax Credit and to make the Apprenticeship Training Tax Credit the most generous in Canada. For details, see Chapter III: *Reforming Ontario's Tax and Pension Systems*.

CURRENT INVESTMENTS IN SKILLS AND KNOWLEDGE

Over the past five years, the Ontario government has been preparing the province's workforce for the new economy through the $6.2 billion Reaching Higher Plan for postsecondary education and through Employment Ontario, the Province's over $1 billion per year integrated network of employment and training services. The investments in Reaching Higher have supported an increase of 100,000 students at colleges and universities since 2002–03. The Employment Ontario network helped more than 900,000 Ontarians last year.

The Skills to Jobs Action Plan, introduced in 2008, is creating training opportunities for new careers, improving student access and building new places to learn. It has provided additional supports for workers affected by the global economic crisis, including financial assistance to retrain them for careers in growing areas. The Skills to Jobs Action Plan has also expanded the Province's training capacity in colleges, union training centres and manufacturing and auto firms.

Key training and employment services include the following:

- Rapid Re-Employment and Training Service, which has given counselling assistance to over 82,000 workers affected by layoffs and plant closures in the last two years;
- Ontario Skills Development, which has provided access to short-term training and return-to-employment assistance for over 20,000 Ontarians in the last two years; and
- Second Career Strategy, which provides financial assistance for laid-off workers to undertake longer-term training. Since its launch in the summer of 2008, close to 5,000 workers have been participating, another 3,000 applications are being processed and the program is on track to meet its goal of 20,000 participants.

Sector Support

The government is continuing to partner with key sectors to help Ontario businesses preserve and create jobs today and be well positioned to succeed in an increasingly competitive global economy.

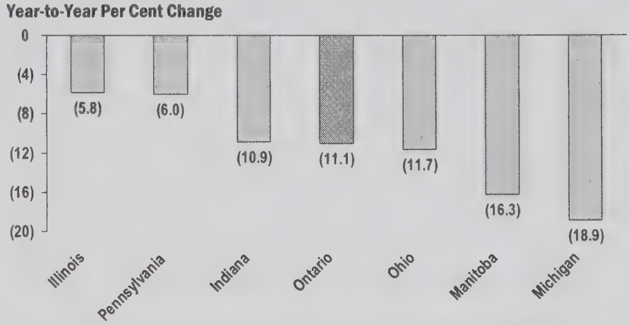
This Budget announces substantial new support for Ontario's key sectors.

Manufacturing

Ontario's diverse manufacturing sector is a major contributor to the economy, directly accounting for 900,000 jobs in 2008. Manufacturing job losses have been widespread across Canada and the United States over the past year, and Ontario has not escaped the decline.

Change in Manufacturing Employment — Chart 8

Ontario Compared to Selected North American Jurisdictions, January 2009



Note: U.S. data for January 2009 are preliminary. Canadian data are based on a household survey, while U.S. data are based on a survey of businesses.
Sources: Statistics Canada, Labour Force Survey and U.S. Bureau of Labor Statistics.

The auto sector is a major component of Ontario manufacturing and a valuable part of the economy. In 2008, it directly employed approximately 150,000 people in the province. Including related supplier and retail industries, it supported about 400,000 jobs. The auto sector's success in Ontario has been an enormous source of pride for the province.

Ontario's auto assembly plants rank among the most productive in North America, benefiting from the province's highly skilled workforce. Ontario's large, diverse auto parts industry includes major global companies and plays an increasingly important role in auto sector innovation. The Province will continue to work with the federal government and Ontario's auto sector to support the sector's move to become more sustainable and globally competitive.

The government's partnerships with manufacturers — such as the Next Generation of Jobs Fund and the Advanced Manufacturing Investment Strategy (AMIS) — are helping companies enhance their competitiveness, preserving jobs today and creating the jobs of tomorrow. To date, AMIS has made loan commitments of almost $100 million to support innovative projects. These loan commitments will generate $890 million in new investments and support the creation or retention of about 4,000 jobs in 15 communities over a five-year period.

Ontario will provide an additional $110 million of tax relief for manufacturers in 2011–12 by paralleling the federal extension of the temporary accelerated 50 per cent straight line Capital Cost Allowance (CCA) rate for manufacturing and processing machinery and equipment investments made in 2010 and 2011.

In addition to the targeted tax relief in this Budget, the government proposes significant tax reform that would include moving to a single sales tax system and cutting the Corporate Income Tax rate for manufacturers to 10 per cent from 12 per cent on July 1, 2010.

The tax savings provided by the elimination of Capital Tax for manufacturers and the proposed new business tax relief in this Budget would provide more than $1.3 billion per year, when fully implemented, in additional tax relief for Ontario's manufacturing sector.

The Northern Economy

The government and the people of northern Ontario are working together in these challenging times to craft a growth plan for the region that will help it compete in the evolving global economy. Research done to support this plan shows that the region is establishing a presence in new sectors, such as the bioeconomy, as well as enhancing its research and commercialization capacities. At the same time, established sectors, such as mining and forest products, remain important cornerstones of the northern economy. Reaching new markets and generating new ideas, products and processes are essential. Innovation will help these sectors be competitive and sustainable in the future.

Transportation infrastructure is also critical to the success of business in Ontario's northern communities. The government is investing a record $648 million in 2009–10 in provincial highway projects in the north. Key northern transportation investments through the Northern Highways Program include the ongoing widening to four lanes of Highway 69 to Sudbury and Highway 11 to North Bay. The Province will also proceed with a new project to widen Highway 11/17 east of Thunder Bay. To support the forest products and mining sectors, the Province is planning to work with the federal government to make new investments to improve resource access roads.

Ontario's most isolated northern communities face unique challenges. The Province plans to invest additional resources in its remote airports, its winter-road network and the remediation of the Mid-Canada Line radar sites. The Province invites its federal partner to join in these investments.

The forest products sector is being challenged by increasing global competition, a slumping U.S. housing market and the volatility of the Canadian dollar. These challenges underline the need for the sector to capitalize on new opportunities and improve competitiveness.

This Budget announces immediate steps to further help the forest products sector, including:

- providing about $58 million to extend by one year the Northern Pulp and Paper Mill Electricity Transition Program, which will provide electricity price rebates of 1.8 cents per kilowatt-hour to qualifying mills; and
- extending, for one year, reductions to the white birch and poplar stumpage rates.

The government will also review Ontario's forest tenure and pricing systems, exploring options to improve their design. Working with industry, environmental groups, Aboriginal communities and the broader public, the government will help create the best environment possible for Ontario's forest product businesses to succeed, while balancing this with sustainable practices.

Mining is a significant driver of economic growth in northern Ontario, which is home to Ontario's 27 metal mines, five of the province's 14 major industrial mining operations, most of Ontario's gemstone operations, and an estimated 400 mining service and supply companies.

Metal prices have dropped significantly from recent highs, and the current global economic crisis continues to create challenges for the sector. The government is taking measures to help the mining sector. This spring, the government will introduce changes to the *Mining Act* that promote balanced development to benefit all Ontarians, while supporting a vibrant Ontario minerals industry. The proposed legislative changes would also establish a framework that would make significant strides in Aboriginal consultation. The government is providing $40 million over three years for initiatives to support *Mining Act* modernization.

The government will provide $2 million annually for the next four years for mining and forest product equipment and services companies and sector associations to expand their export capacity and increase sales to international markets.

Agriculture

With crop and livestock sales totalling close to $9 billion, Ontario farmers make an important economic contribution to the province. To help Ontario farmers, this Budget announces:

- $8 million annually, starting in 2009–10, to promote Ontario food products to the broader public sector;
- $1.5 million for the Ministry of Agriculture, Food and Rural Affairs to plan the development of new agri-food research centres focused on livestock and crop production, renewable energy, nutrition and health. The centres will contribute to market-driven research, development and adaptation for the commercialization of value-added agricultural products, with active participation by all partners, including government, communities, academic institutions and industry; and

- food producers will be better able to sell, and consumers will be better able to identify, Ontario foods with clearer Ontario Food definitions. Developed with the industry and tested through consumer research, each definition includes a high threshold for Ontario content.

Small Business

A strong small business sector is important to Ontario's economic success. It provides important entrepreneurial dynamism to the economy of the province. This Budget proposes targeted tax measures, in addition to a comprehensive tax reform package, that would provide more than $1 billion over three years, beginning in 2010–11, to support Ontario's small businesses. The proposed targeted tax measures include:

- providing enhanced refundable tax credit rates for small businesses that hire apprentices and co-op students;
- extending the refundable Ontario Innovation Tax Credit to more small and medium-sized businesses; and
- providing a temporary accelerated depreciation for buying eligible computers and software.

CREATING JOBS TOMORROW

In this Budget, the McGuinty government is proposing to do more to help those being hurt, right now, by the global recession.

As outlined earlier in this chapter, the government is investing $32.5 billion in infrastructure spending over the next two years, creating an estimated 300,000 jobs. It is also investing more than $750 million in job creation and skills and literacy training. It is investing $130 million in new support for agriculture, mining and forest products.

As critical as short-term stimulative measures are, they are not enough. Managing the challenges posed by this economic crisis is not enough. Ontario must lead. Ontario must take bold action now to build a stronger and more powerful economy for the future.

When the economy recovers from this global recession — and it will — Ontario must be poised to take advantage of the next generation of growth, in order to create jobs and protect and enhance the public services that matter most to Ontarians.

To build Ontario's economy for the future, the McGuinty government is proposing a comprehensive tax reform package.

Starting in July 2010, subject to the approval of the legislature, Ontario would move to a single sales tax that is based on value-added taxation. More than 130 countries in the world have already adopted

such a tax, which is overwhelmingly recognized around the world as being superior to a Retail Sales Tax (RST) in increasing investment and productivity.

To help Ontarians through the adjustment period and to provide ongoing tax relief, the government proposes to provide $10.6 billion over three years in tax relief for people.

Over the same period, the government is proposing to provide $4.5 billion in tax cuts for businesses, including reducing the tax rate for small business and eliminating the small business surtax.

The tax measures proposed in this Budget would make Ontario one of the most attractive jurisdictions in the industrialized world for new investment. Attracting new investment to the province will lead to future job creation.

This comprehensive tax reform package is the single most significant action the government can take at this time to strengthen the Ontario economy for the long term. It would provide a lifeline to thousands of businesses today and would position the economy for rapid growth as Ontario emerges strongly from the economic downturn.

To boost Ontario's competitiveness further, this Budget also makes investments to grow a greener economy, accelerate innovation and attract investment.

The government's tax reform package — along with new investments in a green economy, innovation and to attract investment — would position the economy for long-term competitiveness, leading to economic growth and jobs, and preserving and enhancing the public services that matter most to Ontario families.

Ontario's Tax System

Building Ontario's Economic Future

Five years ago, the McGuinty government was elected on its commitment to strengthen the public services Ontario people and families need to reach their full potential — publicly funded education, universal health care, modern infrastructure, support for vulnerable citizens and a greener Ontario.

These investments strengthen the programs and services that matter most to Ontarians and also strengthen the economy. Ontario's well-educated workforce, universal health care system and modern infrastructure are key to its economic success and competitiveness.

A strong, competitive economy that invests in people and businesses is more productive, creating more wealth and jobs, and ultimately improving the quality of life for all citizens.

The government has already taken several steps to improve Ontario's competitiveness by lowering business costs. Since 2004, the Province has made strategic tax cuts that have already saved Ontario businesses $3.2 billion and, when fully implemented, will provide tax relief of nearly $3 billion annually.

These strategic tax cuts include eliminating Capital Tax for manufacturers retroactive to 2007 and fully eliminating Capital Tax on July 1, 2010.

But more must be done. The current global economic crisis has heightened the responsibility of government to do all it can to strengthen Ontario's economy for the long term.

Returning to growth is not enough. The economic growth levels that Ontario experienced prior to the world economic crisis will not be enough to enhance valued public services and to continue to reduce poverty levels.

The government of Ontario does not control monetary policy. It does not control international markets. It cannot affect the global economic downturn. However, the government does control the province's tax structure.

The government is therefore taking bold action to reform Ontario's tax system.

Reforming Ontario's tax system is the single most effective step the government can take to help create jobs and position the economy for future growth.

Reforming Ontario's tax system is the essential next step in the McGuinty government's plan to build Ontario's future economy, which would improve the quality of life for all Ontarians.

The Need for Change

In today's global economy, Ontario has no choice but to compete to attract the investment needed to grow, leading to job creation and maintaining a high and rising standard of living.

Ontario's current tax system imposes too high a burden on investment and income — key drivers of prosperity, growth and job creation.

Lower Corporate Income Tax (CIT) rates would boost new investment.

As well, numerous studies and groups have said that a crucial measure the government can take today to promote long-term economic growth is to reform the tax system by replacing the RST with a single value-added tax. Value-added taxation is overwhelmingly accepted around the world as a more efficient form of taxation than a retail sales tax. Among the 30 developed countries that belong to the Organisation for Economic Co-operation and Development (OECD), only the United States does not have a value-added tax.

ONTARIO'S OUTDATED RST

Since the RST was introduced in 1961, Ontario and the world have undergone significant economic changes. The RST has not kept pace with these changes. For example, since 1961:

- Ontario has moved from a relatively closed economy to an economy that is export-driven and highly integrated with international markets;
- supply chains have become increasingly complex, increasing the need for tax systems that are efficient and easy to administer;
- the federal government has implemented the GST, a value-added goods and services tax, resulting in two largely incompatible sales taxes in Ontario; and
- over 130 countries, including most OECD countries, have introduced value-added taxes.

Examples of Countries with a Value-Added Tax

Australia, China, France, Germany, Ireland, Italy, Japan, South Korea and the United Kingdom.

The province needs business and sales tax systems that maximize its international competitiveness. Bold action is needed now to move the province to the next level of global competitiveness, so that Ontario can take advantage of the opportunities of the future.

The government is taking action.

Comprehensive Tax Reform Package

To ensure that the province is poised to take advantage of the next generation of jobs and economic growth, the government is proposing to fundamentally reform Ontario's tax system.

There has never been a more appropriate time for this kind of reform. This balanced, effective approach would position Ontario's economy for long-term competitiveness. It would lead to economic growth and job creation, which in turn would preserve and enhance the public services that matter most to Ontario families.

The proposed personal, corporate and sales tax changes would enhance Ontario's competitiveness by lessening the tax burden on investment and income. Replacing two sales taxes with one would save businesses more than $500 million a year in compliance costs. Businesses would also have a greater incentive to reinvest profits, promoting expansion and growth, permitting them to reduce prices, invest in productivity improvements and create jobs.

Reforming Ontario's Sales Tax

Working in partnership with the federal government, Ontario proposes to move to a federally administered single sales tax.

Pending legislative approval and Ontario and Canada signing a tax coordination agreement, the single sales tax would take effect July 1, 2010 with a combined rate of 13 per cent, with the provincial portion at a rate of eight per cent and the federal portion at a rate of five per cent.

Implementation of the single sales tax would bring Ontario into line with what is viewed as the most efficient form of sales taxation around the world.

The single sales tax would reduce the cost of Ontario's exports, making the province more competitive and boosting a sector of the economy that has been particularly hard hit by the economic downturn.

With the added efficiency of a single sales tax, Ontario would be well positioned as the global economy recovers.

The single sales tax would be largely consistent with the federal Goods and Services Tax (GST). The single sales tax would not be charged on a range of items, such as basic groceries, prescription drugs, and medical devices. Like the GST, the single sales tax would be levied on most other goods and services.

The government is proposing a number of made-in-Ontario components to meet the province's unique requirements:

- Children's clothing and footwear, children's car seats and car booster seats, books, diapers and feminine hygiene products would be exempt from the provincial portion of the single sales tax.
- Purchasers of new homes worth up to $500,000 would receive a housing rebate on the provincial portion of the single sales tax. The proposed provincial rebate rate would be more than twice as generous as the GST housing rebate rate and is estimated to return $1.1 billion per year to homebuyers. The effect of the housing rebate would be to ensure that, on average, new homes under $400,000 would not be subject to an additional tax burden.
- To help small businesses make the transition to a single sales tax, the government would provide up to $400 million in one-time transition support in the form of a sales tax credit.
- Municipalities, hospitals, universities, colleges, school boards, charities and qualifying non-profit organizations would receive rebates to ensure the net effect of the provincial portion of the single sales tax would be fiscally neutral for each of these sectors.
- Under the single sales tax, the provincial portion of the tax rate on transient accommodation, such as hotel rooms, would rise from five per cent to eight per cent. Approximately $40 million of annual net revenue associated with this difference in rates would be allocated to support destination marketing in Ontario tourism regions, once these are established.

For people:

To help Ontarians through the period of adjustment to the single sales tax, and to provide ongoing tax relief, the McGuinty government is proposing $10.6 billion in tax relief for people over three years, including:

- $4 billion in cash payments to 6.5 million Ontario families and individuals — totalling up to $1,000 for families and up to $300 for single people — in 2010 and 2011 to ease the transition to a new single sales tax;
- a new permanent $260 refundable sales tax credit for low- to middle-income adults and children;
- an enhanced refundable property tax credit to continue providing relief to low- and middle-income homeowners and tenants; and
- $1.1 billion in ongoing, broadly based Personal Income Tax (PIT) cuts, by reducing the first bracket tax rate from 6.05 per cent to 5.05 per cent, the lowest rate of any province in Canada.

Ontario's proposed PIT rate reduction, enriched sales tax credit and enhanced property tax credit would increase the progressivity of Ontario's tax system by providing a greater share of the tax relief to low- to middle-income individuals and families.

For businesses:

The McGuinty government is proposing tax cuts for business that would result in $4.5 billion in tax relief for businesses over three years. When the proposed tax reform measures are fully phased in, the marginal effective tax rate on new investment in Ontario would fall by more than half, from 32.8 per cent in 2009 to 16.2 per cent in 2018. This would increase investment and productivity, leading to new job creation.

- The proposed business tax measures include:
  - cutting the Manufacturing and Processing CIT rate from 12 per cent to 10 per cent, effective July 1, 2010;
  - cutting the general CIT rate from 14 per cent to 12 per cent by July 1, 2010 and to 10 per cent in 2013;
  - cutting the CIT rate for small business from 5.5 per cent to 4.5 per cent, effective July 1, 2010;
  - eliminating the CIT small business deduction surtax, effective July 1, 2010, making Ontario the only Canadian jurisdiction that does not claw back its small business deduction; and
  - exempting more small and medium-sized businesses from the Corporate Minimum Tax and cutting the rate for large businesses from 4 per cent to 2.7 per cent effective July 1, 2010.

The Budget also proposes targeted tax relief of more than $940 million over four years to help seniors and families, key sectors in the economy, innovation and training.

Overall, the tax measures proposed in this Budget, net of federal transitional assistance of $4.3 billion, would reduce Ontario revenue by $2.3 billion over four years. See Chapter III: *Reforming Ontario's Tax and Pension Systems* for further details of the proposed tax measures.

Growing the Green Economy

The global trend towards fighting climate change and ensuring environmental sustainability presents enormous economic opportunities. The potential for growth in sectors such as clean energy, green transportation and energy efficiency is significant. Jurisdictions that embrace the shift to a low-carbon, sustainable economy — aligning environmental goals with economic ones — will see more robust growth, more jobs and higher wages. Investments will gravitate to those jurisdictions that demonstrate vision, creativity and leadership.

> **WHAT IS A "GREEN ECONOMY"?**
>
> A green economy encourages more energy-efficient and environmentally sustainable production and consumption. It does so by taking into account the costs of environmental degradation and rewarding more sustainable economic growth.
>
> For example, the proposed Green Energy and Green Economy Act, 2009 would place a higher priority on green energy projects, which would more closely reflect the social benefits of switching from carbon-based energy, such as coal-powered electricity, to clean and renewable green energy.

Since 2003, the government has pursued policies that position Ontario for success in the green economy, including making its electricity supply cleaner, making breakthrough investments in public transit and preserving natural resources such as the Greenbelt and the northern boreal forest. The current global economic downturn is no reason to slow these efforts. Indeed, the economic challenges facing Ontario families underline the need for the government to work even harder to ensure that Ontario is a leader in the transition towards a greener economy, attracting more green jobs sooner.

Central to the government's thinking on energy has been the remediation of greenhouse gases (GHG). The government's commitment to the replacement of coal-fired electricity generation and support of renewable electricity and conservation programs would reduce GHG emissions from the electricity sector and contribute to addressing climate change challenges. To date, coal use in Ontario is down by almost 40 per cent. By 2014, Ontario's electricity needs will be met without coal. Ontario's coal replacement is the single largest GHG reduction initiative in Canada.

As carbon pricing becomes a reality, those jurisdictions that move away from carbon-based energy will enjoy a significant economic advantage.

The government recognizes that Ontario's power grid is where economic and social interests meet. Ontario's power sector is not only an enabler of efficient, reliable energy, it has the potential to be a key engine of economic development and prosperity.

On February 23, 2009, the government introduced Bill 150, the Green Energy and Green Economy Act, 2009, to power the transition to a cleaner, greener economy and support the creation of an estimated 50,000 jobs in the first three years.

THE PROPOSED GREEN ENERGY AND GREEN ECONOMY ACT, 2009

The proposed legislation would:

- foster the growth of renewable energy sources and increase energy conservation;
- enable a feed-in tariff program that guarantees specific rates for energy generated from renewable sources, and also streamline the approvals process. A Renewable Energy Facilitation Office would be established to help proponents of renewable energy projects navigate the appropriate approvals more efficiently;
- permit the establishment of conservation standards for the public sector and the requirement of regular reporting of energy consumption;
- support the establishment and implementation of a smart electricity grid for Ontario by incorporating advanced information exchange systems and equipment. A smart grid would make it easier to connect renewable generation to the system, enhance access to Ontario's power grid and expand opportunities to provide demand response, price information and load control to electricity consumers; and
- enable domestic content requirements for renewable energy projects.

"Ontario's Green Energy Act and supporting initiatives are the most comprehensive renewable energy policy entered anywhere around the world." — Michael T. Eckhart, President, American Council on Renewable Energy (ACORE)

"Ontario's Green Energy Act represents North America's most ambitious and far reaching enabling legislation and will place Ontario as a world leader in renewable energy development, industrial innovation and climate protection." — Dr. Hermann Scheer, General Chairman of the World Council for Renewable Energy, Member of the German Bundestag

OPPORTUNITIES IN THE GREEN ECONOMY

The green economy presents opportunities for new investment that can lead to high-value jobs, including those related to:

- wind energy manufacturing (turbines, grid integration and components);
- integrated hydrogen delivery and use in warehouse equipment;
- high-tech water supply and treatment;
- energy-efficient intelligent buildings;
- waste diversion and recycling, and bio-waste to energy;
- green auto parts manufacturing (interior trim, head restraint coverings and ceilings) using bio-based materials, such as soy beans and castor; and
- services related to green energy and clean tech financing.

The government will make Ontario a champion of a green economy, with a sweeping group of initiatives that build on the province's strong record of protecting its natural resources. They include:

- $250 million over five years for a new Emerging Technologies Fund that will include investments in green technology companies;
- approximately $390 million to match Ontario's share of the federal Green Infrastructure Fund to develop initiatives that assist in the implementation of the proposed Green Energy and Green Economy Act, 2009, including expediting the growth, transmission and distribution of clean, green renewable energy across Ontario;
- $50 million over five years to enable the research, capital and demonstration projects necessary for the development of a smart grid in Ontario;
- accelerating the government's significant investments in public transportation and mass transit;
- reducing energy costs and developing marketable expertise through a significant retrofitting program that focuses on government buildings, schools, social housing, homes and commercial buildings;
- using Ontario's buying power by dedicating $30 million annually to support Ontario's emerging innovative green technology companies by providing initial purchases of their products and by showcasing and demonstrating the effectiveness of those products to potential customers here and around the world;
- $5 million for the Sustainable Prosperity Research and Policy Network at the University of Ottawa, which will help develop a new generation of market-based environmental policy approaches that promote green economic development;

- $5 million over two years to develop a Green Jobs Skills Strategy that responds to labour demand in the emerging green energy sector, including electricity;
- building on Ontario's world-leading commitment to phase out the use of coal-fired electricity generation, the government will continue to work closely with the province of Quebec on cap and trade and will continue to make progress as a member of the Western Climate Initiative towards the development of a cap and trade system for North America in 2012; and
- proposed amendments to the *Assessment Act* and regulations under that Act to provide that the assessment of properties would not be affected due to energy-efficiency enhancements.

The public sector — both the government and the broader public sector — will show leadership by conserving energy and using it more efficiently. This strategy will help lower GHG emissions. It will be informed by the work of David Ramsay, Parliamentary Assistant to the Premier, who has been asked to identify the carbon footprint of the Ontario Public Service and recommend means and strategies to reduce emissions based on expert advice and experience from other jurisdictions.

Ontario is also building a cleaner and greener electricity system. The government's plan for energy includes replacing coal-fired generation, reducing electricity demand by 6,300 megawatts (MW), and dramatically increasing renewable energy capacity. The replacement of coal-fired generation will be completed by 2014. In September 2008, the Minister of Energy and Infrastructure directed the Ontario Power Authority (OPA) to review its targets to maximize the potential for conservation and renewable energy.

Since October 2003, approximately 4,700 MW of new power generation have come online, including almost 1,000 MW of new renewables. Another 6,300 MW of electricity supply projects are currently underway, including about 1,200 MW of renewables. These projects underway represent approximately $12 billion in investments and are estimated to create about 100,000 jobs over the construction period.

In addition, the OPA also has 5,200 MW of renewable, cogeneration and gas-fired generation underway or procurement processes in progress or in the planning phase.

The government is moving forward with a competitive process to select a nuclear reactor vendor for two new units at Ontario Power Generation's (OPG) Darlington site. In 2008, OPG began planning the refurbishment assessment for Darlington. It is also proceeding with its Pickering B refurbishment feasibility assessment.

Accelerating Innovation

Now more than ever, Ontario's ability to compete for jobs and investment depends on creating economic value through innovation. This Budget announces additional tax relief and over $785 million in initiatives that support key partnerships and stimulate Ontario's creative cluster.

Supporting Research and Technology

Effective partnerships are catalysts that generate new ideas and bring new products and services to market. Ontario-grown scientific solutions need to be developed and utilized. This Budget proposes more than $110 million in additional tax relief in 2009–10, and $715 million in investments to support key partnerships in innovation and encourage business to develop new products and services. These investments are on top of the approximately $3 billion already committed by the Ministry of Research and Innovation over eight years to 2011–12. They include:

- $300 million in capital funds over six years for research infrastructure, which will be available to leverage funding from the federal Canada Foundation for Innovation;
- $100 million in additional operating funds over four years for research performed in the biomedical field, focusing on genomics and gene-related research. This funding, as well as the funding for research infrastructure, will be delivered through the Ontario Research Fund;
- $5 million to support the Ontario Genomics Institute, an important partner in fostering genomics research in Ontario, including the administration of Genome Canada research projects awarded in Ontario;
- $250 million over five years for a new Emerging Technologies Fund that will focus on clean technologies, health and life sciences, and information and communication technologies, including digital media;
- $50 million over four years to enhance the successful Innovation Demonstration Fund. Through the Fund, the government will continue to partner with innovative companies to develop emerging technologies, with a preference toward bio-based, environmental and alternative energy technologies;
- $10 million over three years to the Colleges Ontario Network for Industry Innovation to assist small and medium-sized enterprises with hands-on applied research, technology transfer and commercialization;
- $110 million of tax relief in 2009–10 from paralleling the proposed federal temporary 100 per cent accelerated CCA rate for eligible computers and software acquired after January 27, 2009 and before February 2011; and
- $2 million a year in proposed tax relief to extend the 10 per cent refundable Ontario Innovation Tax Credit to more small and medium-sized corporations that perform Scientific Research and Experimental Development (SR&ED) in Ontario.

The Entertainment and Creative Cluster

With employment of 276,000 in 2008, Ontario has the third-largest entertainment and creative sector in North America, after California and New York, and is the leading province in film and television production, book and magazine publishing, and sound recording. Ontario is a solid international competitor in the rapidly growing interactive digital media sector.

INTERACTIVE DIGITAL MEDIA

The interactive digital media sector includes digital content and services, such as mobile phone content, interactive design, digital film and animation, and video games. Its applications have led to the establishment of groundbreaking new sectors such as e-learning, e-health and e-banking.

Global competition is strong among the sector's leading regions, and Ontario is well positioned to be a top player. Ontario has over 700 interactive digital media firms — the majority in the Greater Toronto Area — with additional concentrations in St. Catharines–Niagara, the Waterloo region and Ottawa. Ontario-based firms generate about $1 billion in revenue each year. A wealth of postsecondary programs in digital media studies, including renowned offerings in computer animation at Sheridan College and in integrated media at Ontario College of Art and Design, ensure a high-quality talent supply for this important sector in Ontario.

The government's ongoing support is helping to strengthen the competitiveness of Ontario's entertainment and creative industries, an important component of the new knowledge economy.

This Budget is proposing about $100 million annually in additional tax relief and investments of about $30 million to support the entertainment and creative cluster. These measures include proposals to:

- enhance tax support for the creation of interactive digital media products in Ontario;
- enhance the refundable book publishing tax credit;
- make the enhanced tax credit rates under the refundable film and television tax credits permanent, to create predictability and stability for the industry;
- provide $20 million to the Ontario Media Development Corporation (OMDC), an agency of the Ministry of Culture, which supports a number of Ontario's creative industries as they compete domestically and globally; and
- invest $10 million in a pilot program, administered through OMDC, that would refund a portion of the costs associated with intellectual property development to Ontario-based companies in the screen-based industries.

See Chapter III: *Reforming Ontario's Tax and Pension Systems* for further details of the proposed tax measures.

Tourism

The February 2009 Tourism Competitiveness Study, *Discovering Ontario: A Report on the Future of Tourism*, noted the significant economic contribution tourism makes to the province, with receipts totalling $22 billion annually. The study also noted that, as vital as Ontario tourism is today to creating jobs and growth, its long-term economic potential is greater still.

Approximately $40 million of the annual net revenue from the provincial portion of the single sales tax would be allocated to support destination marketing in Ontario tourism regions, once these are established.

This Budget also announces an additional $41 million, over three years, to enhance Ontario attractions including:

- $33 million for revitalization projects associated with Huronia Historical Parks and the St. Lawrence Parks Commission; and
- $8 million for infrastructure improvements at Fort William Historical Park.

Attracting Investment

Ontario's ability to attract new business investment is critical for job creation and economic prosperity. In 2008, the government created the Ministry of International Trade and Investment, which works internationally to promote trade and attract investment to Ontario, developing new opportunities for Ontario workers. In this Budget, the government is announcing additional measures to enhance Ontario's business climate.

The comprehensive tax package proposed by the government would reform Ontario's tax system so that, when fully implemented, Ontario's marginal effective tax rate on new capital investment would be cut in half — from 32.8 per cent to 16.2 per cent.

This would make Ontario one of the most attractive jurisdictions in the industrialized world for new investments.

This Budget is providing $1.2 million in ongoing operating funding beginning in 2009–10 to the Toronto Region Research Alliance (TRRA), a non-profit organization actively working to strengthen Toronto's ability to attract and grow innovative, research-intensive companies.

Announced on March 6, 2009, the Open For Business strategy is an ongoing plan to make government faster and friendlier for families and businesses while still protecting the public good. As part of the strategy, the government has introduced three initiatives:

- Open For Business will reduce the amount of regulatory burden in Ontario by 25 per cent in the next two years, while continuing to protect public safety.

- A new 1-800 phone number for business inquiries will replace the 12 existing ones.
- Ontario businesses will be able to use their federal Business Number in dealing with provincial ministries of Revenue and Labour, with other ministries and agencies to be included later.

Open For Business complements other improvements in Ontario program and service delivery in a number of important areas, including:

- streamlining to six months the environmental assessment (EA) process for transit projects;
- proposed streamlining of approvals for renewable energy projects; and
- working with the federal government to streamline environmental assessments, leading to an integrated efficient review for infrastructure projects.

The Ontario government continues to look at ways to simplify and modernize its processes and services, in order to keep pace with the needs and expectations of businesses across Ontario.

To this end, the Ministry of Revenue will be engaging Ontario's businesses in a renewed and determined effort to modernize its service commitments and standards for Ontario's tax clients. Clear, timely, accurate and transparent services and processes will help foster confidence and reduce administrative burdens on business.

The ministry is also continuing its work with business on the Taxes Administration Act initiative, announced in the 2008 Budget, with a view to easing the compliance burden, consolidating tax administration rules and using consistent, simplified legislative language.

The single sales tax proposed in this Budget would reduce tax compliance costs for Ontario businesses by over $500 million a year. This is in addition to the estimated compliance savings of up to $100 million a year from the transfer of Ontario corporate tax administration to the Canada Revenue Agency in 2008.

The government will also propose amendments to the *Bailiffs Act* and *Collection Agencies Act* to streamline and modernize bonding requirements for registrants and appointees by permitting the Minister of Small Business and Consumer Services to specify security requirements by regulation.

Advancing Ontario as a World-Class Financial Jurisdiction

Global financial markets have faced significant challenges over the past year, driven in part by the fallout from subprime mortgage lending in the United States. Although Ontario has not escaped the global financial crisis, integrity and strong regulation and oversight at both the provincial and federal levels have left the province's financial markets well positioned compared to other jurisdictions.

On January 12, 2009, the federal Expert Panel on Securities Regulation presented its final report, which outlined a plan to establish a common securities regulator. Ontario has long advocated for

a common regulator, and is pleased to see the Panel's recommendations endorse the government's position. The government believes that the regulator should be headquartered in Toronto.

The government will work in the coming year with federal, provincial and territorial governments to make this initiative a reality. A common regulator would provide investors with greater protection, through more effective regulation and enforcement, while lowering the cost of raising capital for businesses. This initiative would build upon and further the government's efforts to strengthen investor protection and enforcement, including the recent introduction of amendments to the *Securities Act* to facilitate the enforcement of orders across jurisdictions within Canada. The government also plans to propose reforms to registration requirements and registration and prospectus exemptions, as a further step toward a common regulator and enhanced investor protection.

The recent turmoil in financial markets shows that it is critical to have tools available that allow for a prudent, proactive response where immediate action is required to protect the public interest. To that end, the government will propose amendments to the *Securities Act* and the *Commodity Futures Act* that would give the government and the Ontario Securities Commission additional authority to respond to extraordinary circumstances involving a major market disturbance. This amendment would correspond with the legislative approach taken in the United States and the United Kingdom, as well as with recommendations contained in the recent report from the federal Expert Panel.

Canada has the soundest banking sector — the majority of which is based in Toronto — in the world. Toronto is ranked as the eleventh most competitive financial centre in the world on the Global Financial Centres Index. Toronto also has a highly educated workforce and a diverse population, and is a city in which people from around the world want to live and invest.

This Budget announces that the government, in partnership with the Toronto Financial Services Alliance (TFSA), private-sector partners and the City of Toronto, will help fund a strategic positioning paper to provide the building blocks necessary to move Toronto even further forward as a global financial centre. As part of this effort, the government will partner with the City of Toronto to provide the TFSA with the necessary resources to promote Toronto as a financial centre.

These steps, along with other initiatives announced in the 2009 Budget, will help to position Toronto, and Ontario as a whole, among world-leading destinations for businesses in the financial services sector, providing economic growth and high-paying jobs for Ontarians now and in the future.

Strengthening Ontario's Pension System

A strong and modern pension system enhances Ontario's competitiveness through its ability to attract high-skilled labour. It improves quality of life for workers, retirees and their families. It bolsters capital markets — with pension funds constituting the second-largest source of investment capital in Canada after the chartered banks.

The current economic downturn has affected pension plans and retirement savings, underscoring the need for pension reform.

The government is addressing the short-term economic challenges pension plans are facing, while moving forward with long-term reforms to strengthen the pension system for Ontarians and increase Ontario's competitiveness.

Addressing Current Economic Challenges

In December 2008, the government announced it would introduce amendments to the *Pension Benefits Act* in the spring of 2009 to provide pension plans with solvency funding relief — eight measures designed to protect jobs and families during rapidly changing economic conditions. If passed, legislative amendments would allow regulatory changes to be made retroactive to September 30, 2008. The proposed measures would:

- allow plan sponsors to spread their solvency payments over a longer period, freeing resources for operations, including other payroll expenses; and
- ensure that workers and retirees have clear information about the financial health of their pension plans, while helping to protect benefit security.

This Budget includes additional details about the government's solvency relief plan, which are outlined in Chapter III: *Reforming Ontario's Tax and Pension Systems*.

Moving Forward with Long-Term Reform

Despite major economic and demographic shifts, there have been no significant reforms to Ontario's pension system for over 20 years.

To address the need for reform, the government created the Expert Commission on Pensions, which was chaired by noted academic Harry Arthurs. The Commission conducted extensive consultations — receiving 127 submissions from interested Ontarians and stakeholder groups — and commissioned 17 research studies.

The Commission's report, *A Fine Balance: Safe Pensions, Affordable Plans, Fair Rules*, was an important step in developing the government's pension reform agenda. It was released in November 2008, at which time the government announced increased resources for the Financial Services Commission of Ontario and launched a short feedback period on the Expert Commission's report. This feedback period ended on February 27, 2009, and the government is now reviewing the many comments it received.

The Province is committed to moving forward with pension reform, and plans to introduce legislation in the fall of 2009. The government's reforms will be guided by the following principles:

- transparency — ensuring mechanisms are in place for stakeholder feedback and posting proposed regulatory changes;
- balance — considering both benefit security and plan affordability;
- cooperation — collaborating productively with federal and provincial partners, including harmonizing rules with other jurisdictions where possible;
- clarity — striving for clear, user-friendly rules;
- coverage — striving to expand pension coverage for Ontarians;
- competitiveness — ensuring any changes position Ontario for long-term economic success; and
- flexibility — responding to current economic challenges.

To assist with the reform process, the government will establish a Pension Reform Advisory Council to provide practical feedback on specific pension reform proposals.

This Budget proposes further steps to reform pensions — steps that are consistent with the principles outlined in the Expert Commission's report. These changes, if passed, would:

- simplify and clarify pension rules faced by members, pensioners and spouses in the difficult process of marriage breakdown; and
- permit plans to offer phased retirement to allow members at retirement age to continue working while receiving a pension and continuing to accrue pension benefits.

The government will continue to work with the Federal–Provincial–Territorial Working Group on Pensions. One of Ontario's priorities is to review the tax and investment rules relating to pension plans, ensuring these rules better reflect today's changing economy. Ontario will also work to finalize a proposed multilateral agreement to establish clear rules for the administration and regulation of multi-jurisdictional pension plans.

In addition to reforming the *Pension Benefits Act*, the government is committed to exploring broader public policy issues relating to the adequacy of retirement incomes and the extent of pension coverage. The government regards these issues, whose profile has been raised due to the economic downturn, as central to the pensions debate. Through the Federal–Provincial–Territorial Working Group on Pensions, Ontario will collaborate with the federal government and its provincial partners to review possible strategies to explore these issues.

Further details of these proposed legislative and other pension reform initiatives are outlined in Chapter III: *Reforming Ontario's Tax and Pension Systems.*

Towards an Independent and Sustainable Pension Benefits Guarantee Fund

The Pension Benefits Guarantee Fund (PBGF) was established in 1980. Although the PBGF is supported by assessments on plan sponsors, its assessments and benefits have not been reviewed for many years.

Ontario's Expert Commission on Pensions recently recommended that the PBGF be examined to determine appropriate fees and guarantees and to ensure it is governed on self-financing principles. The Commission also recommended that "the PBGF should be administered, preferably at arm's length from the pension regulator, by an agency."

The government is taking the prudent step of reviewing the stability and financial status of the PBGF through an independent actuarial study — the first since the PBGF's inception. Once the study is complete, the government will consider establishing an independent PBGF agency. The government intends that the PBGF would operate on sound principles with coverage levels and assessments that are sustainable for the long term.

As part of the process of creating an independent, sustainable PBGF, the government will introduce amendments to the *Pension Benefits Act* to clarify that the PBGF is a self-sustaining fund, independent of the government. The amendments would give the government the flexibility to make grants to the PBGF, while also confirming that the government is not required to make either grants or loans. The amendments would also confirm the existing regulatory requirement that the PBGF's liability to guarantee pensions is limited to the assets of the PBGF.

INVESTING IN CHILDREN AND FAMILIES

The current global economic crisis should not prevent society from helping its most vulnerable members. In fact, there is now an even more compelling need for immediate measures to support vulnerable Ontarians and families affected by the current economic downturn. Reducing poverty gives people opportunities to achieve their potential, narrows Ontario's prosperity gap and strengthens the economy.

This Budget continues to support the most vulnerable Ontarians by proposing to accelerate the phase-in of the Ontario Child Benefit (OCB), increase social assistance rates and raise the minimum wage as scheduled. It also proposes to invest in building stronger and safer communities by:

- supporting local community initiatives;
- giving youth more access to jobs and training;
- building new affordable housing and renovating existing housing for low-income families;
- providing temporary financial assistance to help low-income tenants avoid losing their homes; and
- retrofitting social housing to help conserve energy.

These proposed initiatives would advance the government's Poverty Reduction Strategy and help families who have been hit hard by these difficult economic times.

Accelerating Ontario Child Benefit Payments

To move forward on its Poverty Reduction Strategy, the government is proposing to accelerate the phase-in of the OCB by two years, providing low- and moderate-income families with up to $1,100 annually per child starting in July 2009 — an 83 per cent increase in the maximum benefit compared to 2008. Currently, the OCB is scheduled to reach a maximum level of $1,100 annually per child in July 2011. Other OCB program parameters and eligibility requirements would not change.

Accelerating the Ontario Child Benefit Payment (Maximum Annual $ Per Child Per Benefit Year[1]) — **Table 2**

	2008–09	2009–10	2010–11	2011–12
Currently Scheduled OCB Levels	600	805	900	1,100
Proposed Accelerated OCB Levels	600	1,100	1,100	1,100
Increase due to Proposed OCB Acceleration	–	295	200	–

1 The OCB benefit year is from July 1 to June 30.
Source: Ontario Ministry of Finance.

The proposed acceleration would provide over $400 million more in children's benefits over the next three years. As outlined in previous Budgets, adjustments would be made to the Ontario Child Care Supplement for Working Families (OCCS) and social assistance benefits for children to further consolidate them with the OCB.

Once the proposed OCB acceleration is implemented, families with children would receive up to $500 more per child in OCB payments than in 2008.

In December 2008, the Poverty Reduction Strategy committed to a maximum OCB level of $1,310 annually per child within five years. The government remains committed to this goal.

The government would also continue to provide funding equivalent to the proposed OCB level for children and youth in the care of children's aid societies. This support would also increase to $1,100 annually per child starting in July 2009. The government will introduce legislation to support the administration of these OCB-equivalent payments.

Community Hubs

As a component of the Poverty Reduction Strategy, the government will invest $3 million in 2009–10 to help establish community hubs in selected low-income neighbourhoods. The community hubs will bring together a range of community partners to identify and provide social, community and educational supports.

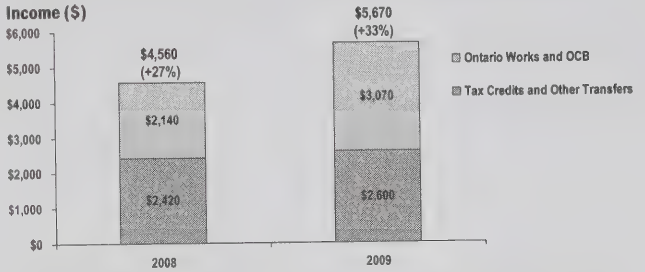
Supporting Ontarians Receiving Social Assistance

In this Budget, the government is proposing to increase the adult basic allowance and maximum shelter allowance by two per cent in November for Ontario Disability Support Program recipients and in December for Ontario Works recipients. The initiative would complement the government's Poverty Reduction Strategy by improving the incomes of social assistance recipients. This would include families receiving Temporary Care Assistance and Assistance for Children with Severe Disabilities, as well as those living in long-term care homes who receive the comfort allowance.

A single-parent family receiving social assistance with two children aged five and seven would have an annualized income of $22,730 — $1,110 higher than in 2008. This would represent an increase of $5,670, or 33 per cent, from the family's 2003 annualized income of $17,060 (see Chart 9).

Supporting Families Through the OCB and Social Assistance — Chart 9

Change in Annualized Income Since 2003 for a Single Parent with Two Children (Aged 5 and 7)



Notes: 1) Tax credits and other transfers include the Canada Child Tax Benefit base benefit, National Child Benefit Supplement, Universal Child Care Benefit, Goods and Services Tax Credit, and Ontario Property and Sales Tax Credits. 2) Incomes are stylized and annualized as of the end of the calendar year shown. 3) The family's annualized income would increase from $17,060 in 2003 to $22,730 in 2009. 4) Inflation between October 2003 and December 2009 is projected to be 11 per cent.
Source: Ontario Ministry of Finance.

Taking into account the increase proposed in this Budget, social assistance rates would rise by 11 per cent since the government first took office in 2003. Municipalities would not be required to contribute to the proposed rate increase until January 2010.

Support for Housing

The government is proposing new housing infrastructure initiatives that will support its Poverty Reduction Strategy. Together with the federal government, the Province plans to invest:

- more than $700 million over the next two years for social housing rehabilitation and energy retrofits;
- more than $360 million to help create new affordable housing for low-income seniors and persons with disabilities; and
- $175 million over the next two years to extend the Canada–Ontario Affordable Housing Program, which is creating new homes for low-income families, senior citizens, persons living with mental illness, and victims of domestic violence.

As part of its Poverty Reduction Strategy, the government is also proposing to provide more than $5 million annually beginning in 2009–10 to ensure stable funding for municipal rent banks across Ontario. To help low-income tenants keep their homes, the government has invested nearly

$24 million since 2004 to support rent banks. Provincial rent bank funding has prevented more than 15,500 evictions to date.

Raising the Minimum Wage

In the 2007 Budget, the government announced that the minimum wage would rise to $10.25 per hour by 2010. On March 31, 2009, the minimum wage will increase by 75 cents per hour as planned.

Since taking office in 2003, the government has increased the minimum wage each year to help Ontario's low-income workers. These increases follow a nine-year period during which Ontario's minimum wage was frozen.

MINIMUM WAGE RATES

1995 to 2003	$6.85
February 1, 2004	$7.15
February 1, 2005	$7.45
February 1, 2006	$7.75
February 1, 2007	$8.00
March 31, 2008	$8.75
March 31, 2009	$9.50
March 31, 2010	$10.25

Support for Seniors

Doubling Senior Homeowners' Property Tax Grant in 2010

As announced in the 2008 Ontario Budget, the Ontario Senior Homeowners' Property Tax Grant is providing up to $250 to help low- to middle-income senior homeowners pay their 2009 property taxes. Starting in 2010, the maximum grant amount will be increased to $500. Over the next five years, the grant will provide about $1 billion in property tax relief to over 600,000 seniors.

Enhancing Ontario Property and Sales Tax Credits for Senior Couples

Since 2003, the government has made several improvements to Ontario Property and Sales Tax Credits to ensure they better reflect circumstances facing low-income seniors. This Budget proposes to further enhance these credits to ensure that senior couples receiving the guaranteed minimum level of income from governments receive the full benefit from these credits.

Starting in 2010, the Ontario Property and Sales Tax Credits would be replaced with a new Ontario Sales Tax Credit and a new Ontario Property Tax Credit.

Increasing Access to Locked-In Accounts

The Budget also proposes reforms for locked-in accounts to give seniors and other Ontarians more flexibility in accessing the funds in these accounts:

- increasing the amount of unlocking permitted from Ontario Life Income Funds (LIFs) from 25 to 50 per cent; and
- providing a two-year waiver of fees for financial-hardship unlocking applications.

For further details on support for seniors, see Chapter III: *Reforming Ontario's Tax and Pension Systems*.

BRINGING FAIRNESS TO ONTARIO

Since 2003, the government has led a campaign to achieve fairness for Ontario. The federal government has responded to some of Ontario's concerns and both levels of government are taking action to help Ontarians meet the current economic challenges. In these times of economic uncertainty, Ontarians expect governments at all levels to work together.

Ontario has fought to ensure that federal funding for health care, postsecondary education and social services, provided through the Canada Health Transfer (CHT) and Canada Social Transfer (CST), treats all Canadians equally. In 2007–08, the federal government began transferring the CST on an equal per capita basis.

Compared to 2008–09, Ontario will increase health sector spending by over $1.8 billion, supported by a $841 million increase to Ontario's CHT payment. This CHT increase includes $489 million in 2009–10 to give Ontario per capita funding equal to the other provinces that receive Equalization. This increase in the CHT provides support to Ontario hospitals and increased funding to the Ontario Health Insurance Plan (OHIP) program.

In 2009–10, Ontario will also receive a $347 million Equalization payment — an amount equivalent to the disappearing federal funding that supports public transit and reductions in medical wait times.

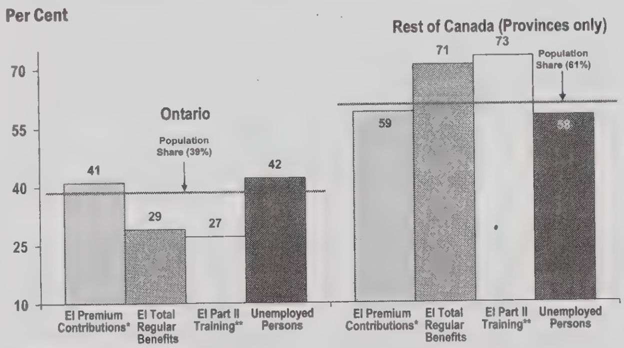
While the Province has a plan to strengthen Ontario's economy and create new jobs, it can do much more, much faster, in partnership with the federal government.

The Need for a Federal Partner to Support Ontario's Workers

Despite recent improvements to the program, Ontario's concerns about Employment Insurance (EI) remain. Almost 70 per cent of unemployed Ontarians do not receive EI total regular benefits, primarily because the program is not designed to meet the changing needs of Ontario's labour force. In 2008, total regular benefits per unemployed person were $5,490 in Ontario, versus an average of $9,560 in the other provinces — a difference of $4,070, or 43 per cent less.

Ontario a Large Net Contributor to EI in 2008 **Chart 10**

Share of EI Contributions and Unemployed Persons vs. EI Benefits and Training



* Ontario Ministry of Finance estimate.
** EI Part II Training and Employment Services allocation based on 2008–09 fiscal year.
Sources: Statistics Canada, Department of Finance Canada and Ontario Ministry of Finance.

Ontario workers and employers contribute more to the federal EI program than do those in any other province in Canada. Ontarians have contributed disproportionately to the EI program for years and are now asking to make use of that investment. Further, Ontario's share of total EI funding for employment and training services is expected to be about 30 per cent next year, up from 27 per cent in 2008-09. However, this improvement will lapse after two years and remains much lower than Ontario's 42 per cent share of Canada's unemployed workers.

Ontario calls on the federal government to ensure Ontarians have equitable access to the EI program, especially during these difficult economic times. The federal government should also review and change the current EI funding formula for training programs to reflect current labour market conditions.

The Need for a Federal Partner in Early Learning and Child Care

In 2006, the federal government unilaterally terminated the Early Learning and Child Care agreement. With the last federal payment made in 2006–07, Ontario has been able to support almost 8,500 child care spaces across the province, through to 2009–10.

However, beginning in 2010–11, a commitment of ongoing support from the federal government is essential if Ontario is to maintain these child care spaces. Ontario calls on the federal government to reconsider its decision to terminate the agreement. The federal government must initiate new funding measures to support child care.

COMPETITIVE GOVERNMENT

Despite the fiscal challenges arising from the economic downturn, the government will not compromise vital public services. In fact, its prudent management is preserving jobs and protecting services.

The government has already made significant headway in modernizing government and managing expenditure growth. Through more streamlined processes, lower administrative costs, better use of technology, and ongoing cost-avoidance and cost-reduction initiatives, the government identified reportable savings of $806 million in its 2007 Budget. Ongoing efficiency initiatives reduced the overall cost of Ontario government administration from 15 per cent of all government spending in 2003–04 to 12 per cent in 2007–08, the second-best efficiency rate in Canada.

Efficiencies are also found in the government's day-to-day interactions with the public. Through the recent pre-budget consultations, new and innovative ways of interacting and consulting with the public were piloted by the Minister of Finance. Contact North is a network of distance education and training access centres bridging 90 communities across northern Ontario. The pilot enabled the Minister to consult with more than one community at the same time. Due to its success, Contact North technology will be more broadly used in future government consultations, thereby reducing travel costs and engaging more Ontarians across the province.

In the 2008 Ontario Economic Outlook and Fiscal Review, the government implemented new expenditure management measures and saved an estimated $111 million in the last five months of fiscal 2008–09, exceeding its original target by almost $3 million. This was bolstered by measures such as reducing travel and consulting costs; freezing the purchase of government vehicles; freezing the existing government real estate footprint and leasehold improvements; and increasing green workplace practices to reduce printing, photocopying and fax costs. Total Provincial expense in 2008–09 has been held to growth of only 0.8 per cent compared to 2007–08, and only 1.2 per cent higher than the 2008 Budget forecast — reflecting the government's commitment to contain spending while protecting key public services during this time of economic uncertainty.

In addition to the efficiency measures introduced in the fall of 2008, this Budget takes another step forward in managing the Province's finances by introducing a $1 billion efficiency target in 2011–12.

The government has already achieved significant savings. Building on this success, innovative efficiency practices and managing overall expenditures will help the government balance the budget by 2015–16. Excluding non-core spending, such as immediate measures to protect and create jobs, core program expense growth will be held to 3.6 per cent on average annually between 2008–09 and 2011–12, lower than the projected 3.8 per cent average annual growth rate for revenue over the same period. Similarly, program expense will be held to 2.3 per cent annual average growth between 2011–12 and 2015–16, lower than the 4.6 per cent growth projected for revenue over the same period.

In December 2008, the government further demonstrated its commitment to prudent use of taxpayer dollars by announcing measures that restrain spending on public salaries. Deputy ministers and senior managers earning $150,000 or more annually will have their base-salary and salary-range increases limited to 1.5 per cent in 2009–10. This Budget proposes changes to the *Legislative Assembly Act* that, once enacted, would freeze the annual salary of Members of the Provincial Parliament at their current level for that year.

Last fall, the size of the Ontario Public Service (OPS) was frozen at 68,645 full-time equivalent staff. This Budget takes a further step at making the OPS more efficient by reducing its size by five per cent over three years through attrition and other measures. The government recognizes the important work of its public service to deliver vital services to citizens and in showing leadership during times of economic hardship.

The government is also proposing amendments to the *Government Advertising Act, 2004* to clarify certain sections. Under the amendments, members of the Executive Council would not be allowed to appear in television, radio, print, cinema and transit advertisements, paid for by the government of Ontario or printed material paid to be distributed to households in Ontario by the government of Ontario.

The government will also propose amendments to the *Ontario Provincial Police Collective Bargaining Act, 2006* and *Police Services Act* to implement agreements reached with the government's bargaining agents, modernizing the labour relations framework for the OPS.

Investing in eHealth

In September 2008, the government launched a new agency, eHealth Ontario, to lead implementation of a coordinated eHealth strategy and the creation of an electronic health record for Ontarians by 2015. Electronic health care records will enable better sharing of health information that will improve patient care and create a more effective and cost-efficient health care system.

Ontario's eHealth strategy will initially focus on achieving three priorities:

- building a diabetes registry to help people with diabetes and their health care providers to control and manage diabetes more effectively in order to reduce associated complications and costs;
- implementing online management of prescription medications to minimize preventable adverse drug reactions; and
- developing an eReferral and Resource Matching system in Ontario's hospitals in order to better manage wait times in their emergency departments and to expedite patient referrals to appropriate care settings.

These initiatives will lead towards the improvement of quality of care received by Ontarians, improve outcomes and help manage health care costs.

OntarioBuys

In the 2004 Budget, the government launched OntarioBuys, an important initiative to reduce the overall costs of broader public sector (BPS) procurement and redirect savings to front-line services.

OntarioBuys is an innovative program designed to find savings from the $10 billion that the BPS spends each year purchasing goods and services. With the health sector accounting for more than 40 per cent of that spending, OntarioBuys initiatives have so far predominantly focused on hospitals' efforts to automate supply chain processes, reduce duplication, and standardize product sourcing, purchasing and payment.

These institutions saved money, improved productivity and freed up much-needed funds to support front-line service. To date, OntarioBuys has helped BPS entities redirect $45 million in savings towards front-line services and is tracking to $100 million in annual savings by 2011–12.

As a major step forward in fiscal accountability, the government of Ontario will propose legislation to expand the OntarioBuys program. This legislation would build on the success of collaborative purchasing by bringing together more BPS partners to leverage the benefits of innovative supply chain leading practices, reduce supply costs and redirect savings towards vital public services. All major BPS entities funded by Ontario's taxpayers would be included under the proposed legislation, which would require the majority of BPS entities to collaborate when buying common goods and services. Through the strengthened mandate of OntarioBuys, it is anticipated that this coordinated and integrated

approach to procurement would result in $200 million in annual savings within the first three years of operation. This approach makes sense at a time when operational dollars for BPS partners are so precious.

The BPS holds significant purchasing power, and this legislation would use that purchasing power to benefit Ontarians. By mandating certain procurement activities, such as buying goods and services collaboratively, the government of Ontario would not only drive down costs while maintaining — and even improving — the quality of front-line services, it could also facilitate initiatives that are important to Ontarians, such as the purchase of green products and services.

CHAPTER II

Ontario's Economic Outlook and Fiscal Plan

Section A: Overview

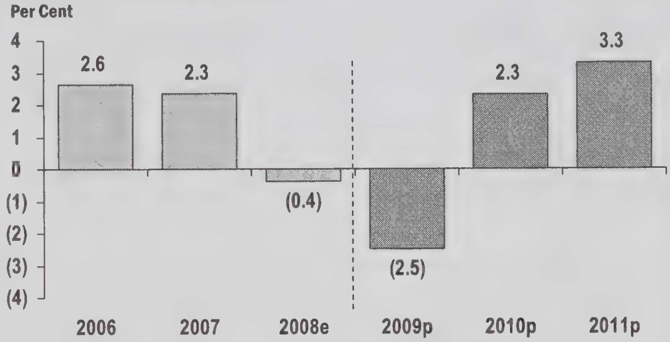
2009 Budget – Numbers at a Glance			Table 1
Ontario's Economy:		**Provincial Finances:**	
Projected Real GDP Growth, 2009	(2.5%)	2008–09 Interim Deficit	$3.9 billion
Avg. Private-Sector Growth, 2009	(2.4%)	2009–10 Revenue Plan	$96.0 billion
Projected Real GDP Growth, 2010	2.3%	2009–10 Expense Plan	$108.9 billion
Jobs since October 2003	325,700	2009–10 Reserve	$1.2 billion
Real GDP (2008 above 2003)	10.3%	Debt[1]-to-GDP Ratio (2003–04)	25.2%
Real Disposable Income (2008 above 2003)	17.9%	Debt-to-GDP Ratio (2008–09)	18.4%

1 Debt is defined as accumulated deficit.

This chapter presents the outlook for the Ontario economy and the government's fiscal plan.

The global economic outlook has deteriorated significantly in recent months. The U.S. economy — critically important to Ontario as the destination for most of its exports — is in the midst of one of its deepest downturns. Ontario is not immune to these broader forces and the current recession is expected to persist through the first half of 2009.

Ontario Real GDP Growth Chart 1

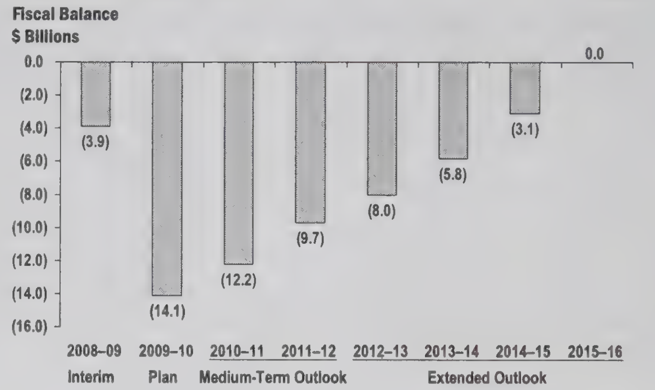


e = estimate.
p = Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Growth in the global economy is expected to resume within the next year, mainly due to the aggressive fiscal and monetary actions of national governments and central banks around the world. The Ontario economy is expected to follow the same recovery pattern as the U.S. economy, with growth in Ontario expected to resume during the latter half of 2009 and to gain momentum in 2010 and 2011.

Recognizing the economic challenges facing Ontario, the government chose to reaffirm its commitment to provide and protect key public services. Taking into account the impact of the sudden and unexpected global downturn on the economic and revenue outlook, the Province is currently projecting a $3.9 billion deficit in 2008–09. In response to the downturn, the government is committed to protecting and creating jobs, as well as investing in key priority areas, while holding the average annual growth in core program expense at 3.6 per cent, compared to 3.8 per cent projected revenue growth between 2008–09 and 2011–12. As a result, the Province is projecting steadily declining deficits of $14.1 billion in 2009–10, $12.2 billion in 2010–11 and $9.7 billion in 2011–12, and a balanced budget by 2015–16.

Ontario's Fiscal Plan Chart 2



Section B: 2008–09 Interim Fiscal Performance

Over two years ago, the government recognized the challenging global economic environment facing the province and took action through investments in skills, infrastructure and business tax cuts. Furthermore, in response to the sudden and unexpected deterioration of the economic environment in the fall of 2008, the government took immediate steps to continue its responsible management of the Province's finances. Since then, the Ontario economy has continued to experience the effects of global economic challenges, resulting in significant revenue declines. The government is now projecting a $3.9 billion deficit in 2008–09.

2008–09 In-Year Fiscal Performance ($ Millions) — Table 2

	Budget Plan	Interim	In-Year Change
Revenue	96,920	93,427	(3,493)
Expense			
Programs	87,279	88,463	1,184
Interest on Debt	8,891	8,854	(37)
Total Expense	96,170	97,317	1,147
Reserve	750	–	(750)
Surplus/(Deficit)	0	(3,890)	(3,890)

Changes in the 2008–09 fiscal outlook are primarily driven by revenue declines of $3.5 billion, a decrease of 3.6 per cent from the 2008 Budget forecast. Total expense, however, has been held to growth of only 0.8 per cent compared to 2007–08, and only 1.2 per cent higher than the 2008 Budget forecast — reflecting the government's commitment to contain spending while protecting key public services during this time of economic uncertainty.

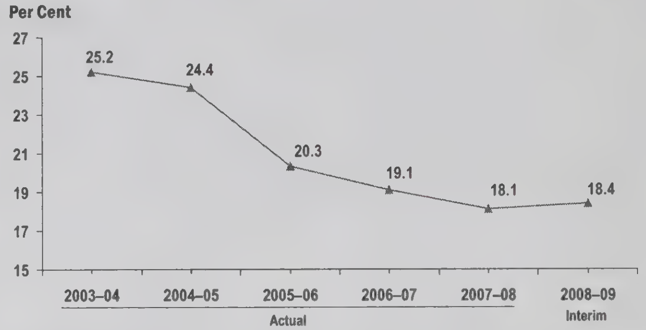
The $750 million reserve was used to offset the effects of slower economic growth on the Province's fiscal outlook.

Ontario's 2008–09 deficit relative to the size of its economy is one of the lowest of the industrialized jurisdictions impacted by the global economic crisis. This underscores the government's commitment to protect jobs and encourage growth while continuing to prudently manage the Province's finances.

These interim results for 2008–09 are based on the best information available as of early March 2009. Given the preliminary nature of interim forecasts, these projections are subject to change. Actual Provincial revenue and expense will be presented in the 2008–09 Public Accounts.

Consistent with the Province's fiscal performance and with slower-than-anticipated gross domestic product (GDP) growth this year, the Province's accumulated deficit-to-GDP ratio is forecast at 18.4 per cent in 2008–09, down from 25.2 per cent in 2003–04.

Accumulated Deficit-to-GDP[1] **Chart 3**



[1] The substantial decline in 2005–06 was primarily due to a one-time reduction of $16.3 billion to the Province's accumulated deficit resulting from the inclusion of hospitals, school boards and colleges in the Province's financial statements, and reflecting the balance of the sectors' assets less their liabilities as at April 1, 2005.

IN-YEAR REVENUE PERFORMANCE

Total revenue in 2008–09 is estimated to be $93,427 million, $3,493 million or 3.6 per cent lower than the 2008 Budget forecast. This is mainly due to weaker economic growth in 2008 and 2009 than projected in the 2008 Budget.

Summary of Revenue Changes Since 2008 Budget ($ Millions) — **Table 3**

		Interim 2008–09
Taxation Revenue		
Corporations Tax	(3,736)	
Personal Income Tax	403	
Land Transfer Tax	(292)	
Retail Sales Tax	247	
Electricity Payments-in-Lieu of Taxes	216	
All Other Taxes	(370)	
		(3,532)
Government of Canada		108
Income from Government Business Enterprises		
Ontario Power Generation Inc. and Hydro One Inc.	(315)	
Ontario Lottery and Gaming Corporation	123	
All Other Government Business Enterprises	(21)	
		(213)
Other Non-Tax Revenue		144
Total Revenue Change		(3,493)

Revenue Changes

Highlights of key 2008–09 revenue changes from the 2008 Budget forecast are as follows:

- **Corporations Tax** (CT) revenues are estimated to be $3,736 million below the 2008 Budget mainly due to the ongoing global financial crisis and weaker 2008 corporate profit growth. Lower revenues from processing of 2007 tax returns also contributed to the CT shortfall.
- **Personal Income Tax** (PIT) revenues are estimated to be $403 million above the 2008 Budget projection mainly due to higher revenues from processing 2007 tax returns, and wages and salaries and employment growth in 2008. This more than offsets the negative impact of lower wages and salaries growth in 2009 and the decrease in certain income components such as capital gains income.
- **Land Transfer Tax** (LTT) revenues are estimated to be $292 million below the 2008 Budget due mostly to the sharper-than-expected decline in housing resale volumes and prices in 2008.

- **Retail Sales Tax** (RST) revenues are estimated to be $247 million above the 2008 Budget, reflecting consumer spending that remained reasonably robust through most of 2008 before the global economic and financial crisis affected consumer spending.
- **Electricity Payments-In-Lieu of Taxes** (PILs) are estimated to be $216 million above the 2008 Budget projection, largely due to higher payments from Ontario Power Generation (OPG) as a result of better-than-expected operational performance. The negative impact on OPG net income of losses in OPG's nuclear funds does not affect PILs since losses in the funds are not deductible for tax purposes.
- **All Other Taxes** revenues are estimated to be $370 million lower due to weaker-than-expected economic conditions, including lower Mining Tax revenues as global commodity prices fell sharply in 2008–09, and lower Gasoline and Fuel Tax revenues due to economic weakness and high gasoline and diesel pump prices during the first half of fiscal 2008–09.
- **Government of Canada** transfers are estimated to be $108 million above forecast. This is largely due to the $150 million federal payments related to corporate tax harmonization being recorded in 2008–09 rather than in 2007–08. Funding under the Canada Health Transfer is estimated to be $55 million above forecast, mainly due to a lower estimated Ontario share of the Canada-wide tax base in 2008, boosting Ontario's share of federal funding. The increase in federal transfer payments is partially offset by lower-than-projected infrastructure program payments and slightly lower funding under the Canada Social Transfer.
- **Net Income from Government Business Enterprises** is projected to be $213 million below the 2008 Budget forecast. The combined net income of Hydro One Inc. and OPG is estimated to be $315 million below the 2008 Budget forecast, largely due to losses in OPG's nuclear funds arising from lower-than-expected financial market performance, partially offset by improved operational performance. The Ontario Lottery and Gaming Corporation experienced higher revenue due to better-than-projected performance across all major lines of business. Net income of all other government business enterprises, including the Liquor Control Board of Ontario, was slightly below the 2008 Budget projection.
- **Other Non-Tax Revenue** is expected to be $144 million above the 2008 Budget forecast, largely due to higher-than-projected recoveries of prior-year expenditures, power sales and other fees, licences and permits. These increases are partially offset by lower revenue from royalties, sales and rentals and the Electricity Debt Retirement Charge. Revenue from power sales reflects current contracts with non-utility generators and is fiscally neutral as it is fully offset by higher expenses from Ontario Electricity Financial Corporation (OEFC) power purchases from non-utility generators.

IN-YEAR EXPENSE PERFORMANCE

Total expense in 2008–09 is currently projected to be $97,317 million, an increase of $1,147 million, or 1.2 per cent, from the 2008 Budget forecast. This increase primarily reflects the government's continued action to protect key public services.

Summary of Expense Changes Since 2008 Budget ($ Millions)	Table 4
	Interim 2008–09
Program Expense Changes	
Health	274.5
Children's and Social Services/Social Housing	259.7
Education	143.2
Infrastructure and Transportation	142.2
Justice	125.1
Other Program Expense Changes	239.7
Total Program Expense Changes	1,184.4
Interest on Debt Savings	(37.0)
Total Expense Changes	1,147.4

Expense Changes

Highlights of key 2008–09 expense changes from the 2008 Budget forecast are as follows:

- **Health** expense increased by $274.5 million, primarily due to $540 million in additional funding for the Ontario Health Insurance Plan (OHIP) program to address higher-than-planned utilization increases and the impact of the new Ontario Medical Association (OMA) agreement. The OHIP funding increase was partially offset by savings in the Ontario Drug programs, public health and other Provincial health programs.

- **Children's and Social Services/Social Housing** expense increased by a net $259.7 million, largely to support the delivery of programs for the vulnerable, including social assistance and child protection services.

- **Education** expense increased by a net $143.2 million, largely due to a $279.9 million increase to support salary increases for education sector staff that were planned for in the 2008 Budget to be offset from the Contingency Fund. Sector savings include higher-than-expected education property taxes, as well as the expenditure restraint measures announced in the 2008 Ontario Economic Outlook and Fiscal Review, which deferred less urgent school capital improvement projects.

- **Infrastructure and transportation** expense increased by $142.2 million, primarily due to increased funding for audits and retrofits under the Home Energy Savings Program, changes in the timing of transportation infrastructure projects, additional spending on enhanced driver's licence initiatives and road safety legislation introduced in the fall of 2008.

- **Justice** expense increased by $125.1 million, primarily for the Criminal Injuries Compensation Board, community safety, and public inquiries.
- **Other program expense** increased by a net $239.7 million in 2008–09, reflecting the balance of changes in program expense. These include increases in the expenses of various consolidated organizations, as well as Ontario Electricity Financial Corporation power purchases from non-utility generators. The increase in power purchase expense from contracts with non-utility generators is fiscally neutral as it is fully offset by higher revenues from power sales. The Operating Contingency Fund has been maintained at $250.0 million.
- **Interest on Debt** expense, at $8,854.0 million, is $37.0 million lower than the 2008 Budget Plan. This amount reflects the impact of lower interest rates and cost-effective management of the borrowing program, partially offset by an increase in borrowing primarily to finance the deficit.

Section C: Ontario's Economic Outlook

OVERVIEW

This section outlines Ontario's current macroeconomic outlook, which underlies the fiscal plan. The Ministry of Finance's key economic planning assumptions are below the average private-sector forecasts that were available when the economic assumptions were finalized on March 13, 2009.

Ontario's economy has been impacted by the global economic downturn, which includes a recession in the United States, and heightened financial-market turbulence.

Ontario Economic Outlook (Per Cent) — Table 5

	2004	2005	2006	2007	2008	2009p	2010p	2011p
Real GDP Growth	2.6	2.8	2.6	2.3	(0.4e)	(2.5)	2.3	3.3
Nominal GDP Growth	4.7	4.0	4.3	4.5	1.7e	(2.4)	3.6	4.7
Employment Growth	1.7	1.3	1.5	1.6	1.4	(2.0)	0.8	1.6
CPI Inflation	1.9	2.2	1.8	1.8	2.3	0.4	1.9	2.0

e = estimate; p = Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

An unusual degree of uncertainty remains regarding the outlook. The strength and timing of the Ontario recovery largely depend on the depth and duration of the current global economic downturn.

The Ministry of Finance outlook includes a 2.5 per cent decline in Ontario real gross domestic product (GDP) in 2009. Real GDP declined in late 2008 and is expected to fall in the first two quarters of 2009. Growth is expected to resume during the second half of 2009 and strengthen over the next few years, with real GDP growth rates for planning purposes of 2.3 per cent in 2010 and 3.3 per cent in 2011. Resumed U.S. economic growth, government efforts to provide jobs for today and for the future, low interest rates and actions taken to improve the functioning of global credit markets are expected to bring about the mid-2009 turnaround. Job creation is expected to pick up, with 161,000 net new jobs expected during 2010 and 2011.

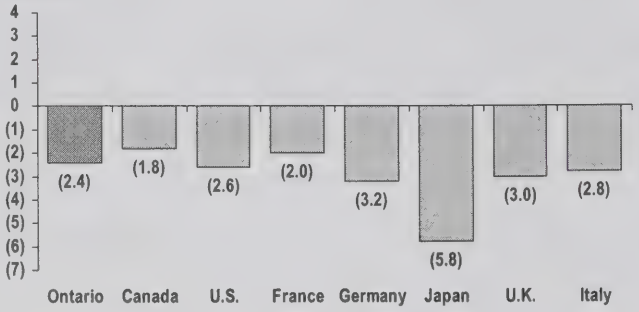
ONTARIO AUTO INDUSTRY FACING SIGNIFICANT CHALLENGES

The auto sector is an important part of the Ontario economy, generating investments and providing numerous jobs in many communities in the province. A vibrant and competitive auto sector will remain an important part of Ontario's industrial mix in the future.

Ontario's auto industry is being hard hit by the sharp decline in demand, with Ontario's exports of autos and parts dropping by 22.8 per cent in 2008. The auto industry accounted for about 3.7 per cent of Ontario GDP in 2008, down from 6.1 per cent in 1999. The industry employed about 150,000 Ontarians in 2008, accounting for 2.3 per cent of total employment, down from a peak of 3.5 per cent in 2002. The Ontario auto sector is expected to see continued challenges throughout 2009. According to the latest *Blue Chip Economic Indicators*, U.S. light vehicle sales are expected to fall from 13.2 million units in 2008 to 10.3 million units in 2009. This represents a decline of 22.0 per cent, and forecasts range from a low of 8.6 million units to a high of 12.5 million units.

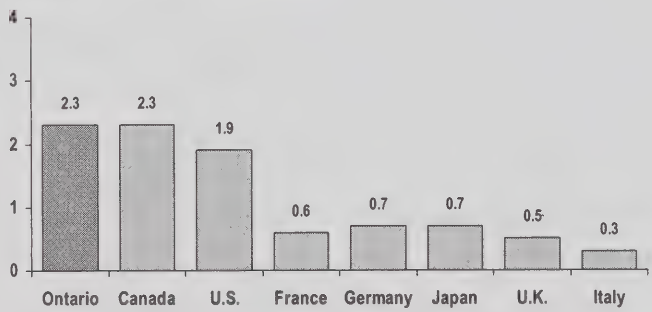
There are prospects for a recovery in the Ontario auto sector after 2009. According to *Blue Chip Economic Indicators,* vehicle sales in the United States are expected to rebound to 12.3 million units in 2010 and 14.0 million units in 2011.

Ontario Affected by the Global Economic Downturn



Sources: Blue Chip Economic Indicators (March 2009), *Consensus Economics* (March 2009) and Ontario Finance Survey of Forecasts (March 2009).

Ontario is experiencing the impact of a sudden synchronized slowdown in the global economy. All G7 economies are now in a recession, with real GDP contracting sharply in the fourth quarter of last year and further declines expected in the first half of 2009. According to *Consensus Economics*, world growth is expected to decline by 1.6 per cent in 2009, compared to growth of 2.0 per cent in 2008. This would be the biggest decline since World War II. All G7 economies are expected to post a decline in output in 2009. The contraction is increasingly affecting emerging-market countries. China and other emerging economies are experiencing lower exports due to declining demand.



Sources: Blue Chip Economic Indicators (March 2009), *Consensus Economics* (March 2009) and Ontario Finance Survey of Forecasts (March 2009).

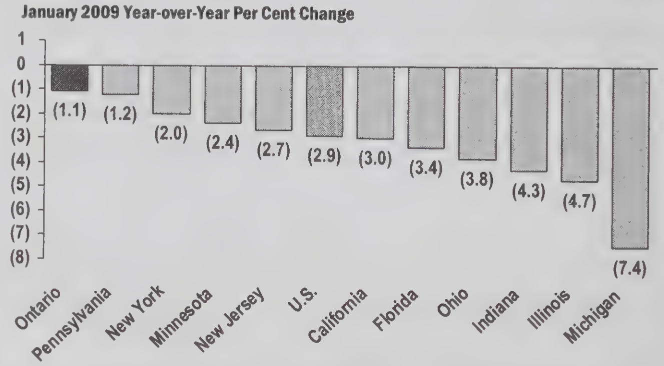
Several factors are expected to support the recovery in the global economy and result in strengthening economic growth. Significant fiscal stimulus measures at the national level and lower interest rates will boost business and household spending globally. Actions to stabilize the financial sector should allow global credit conditions to improve. This will improve confidence and increase the availability of credit to businesses and consumers. Global growth is expected to rebound to 2.1 per cent in 2010.

Recent Ontario Economic Developments

Weaker U.S. and global demand, particularly for autos, combined with ongoing global financial-market turbulence is having a negative impact on economic activity in Ontario. These developments have resulted in declines in net exports, higher unemployment and slower growth in both income and consumer spending.

Ontario real GDP fell by an estimated 0.4 per cent in 2008, following modest growth of 2.3 per cent in 2007. The main drag on growth was lower export volumes — largely autos — which fell more than seven per cent in 2008. Imports also declined — again largely reflecting declines in auto-related imports — but at a slower pace than exports. As a result, Ontario's international and interprovincial trade balance deteriorated significantly in 2008, falling from a surplus of $12.4 billion in 2007 to a deficit of $743 million in 2008.

Widespread Job Loss Chart 6



Note: Total U.S. employment is taken from the Current Population Survey, while state employment is from Local Area Unemployment Statistics.
Sources: Statistics Canada and U.S. Bureau of Labor Statistics.

Ontario's economic performance weakened in the fall of 2008, reflecting the turbulence in global financial markets and a U.S. recession. Real consumer spending fell by an estimated 1.0 per cent in the fourth quarter. The housing market also weakened through the end of 2008 and into early 2009. Housing starts declined by 9.5 per cent in the fourth quarter of 2008 and by a further 25.0 per cent in the first two months of 2009. Sales of existing Ontario homes dropped 23.6 per cent in the final quarter of 2008 and by a further 4.5 per cent in January.

Following a relatively modest decrease in the fourth quarter of 2008, Ontario employment has declined further in the past two months, falling by 71,000 net jobs in January and 35,000 in February. As a result, the Ontario unemployment rate rose to 8.7 per cent in February, from 7.2 per cent in December 2008.

Private-Sector Forecasts

The Ministry of Finance surveys private-sector forecasts to determine appropriate planning assumptions. Due to the rapid deterioration of the global economic situation, private-sector forecasters have revised their projections down significantly in recent months. Private-sector forecasters are, on average, calling for Ontario real GDP to decline by 2.4 per cent in 2009. Only a few forecasters provide quarterly forecasts but the ones that do expect the economy to contract for at least three quarters, with an average peak-to-trough decline of 3.3 per cent. Forecasters expect growth to improve in 2010, but there is a wide range of views. The Conference Board of Canada is the most optimistic, calling for growth of 3.6 per cent in 2010, while Desjardins Group is the most pessimistic, expecting growth of only 1.0 per cent.

Private-Sector Forecasts for Ontario Real GDP Growth (Per Cent) — **Table 6**

	2009	2010	2011
Conference Board of Canada (February)	(1.2)	3.6	4.1
IHS Global Insight (February)	(2.9)	2.5	3.8
Centre for Spatial Economics (February)	(1.2)	3.4	2.5
University of Toronto (February)	(2.1)	3.4	3.8
RBC Financial Group (March)	(1.9)	2.4	–
Scotiabank Group (March)	(2.9)	1.4	–
TD Bank Financial Group (March)	(2.7)	1.2	–
Desjardins Group (March)	(3.3)	1.0	–
BMO Capital Markets (March)	(2.9)	2.1	–
CIBC World Markets (March)	(2.5)	2.0	–
Private-Sector Survey Average	**(2.4)**	2.3	3.6
Ontario's Planning Assumption	**(2.5)**	2.3	3.3

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (March 13, 2009).

To ensure reasonable and accountable economic projections, the Ministry of Finance consults extensively with private-sector forecasters. The Ontario Economic Forecast Council was established as part of the *Fiscal Transparency and Accountability Act, 2004* to provide advice on macroeconomic forecasts and assumptions. The council members are Peter Dungan from the University of Toronto, Glen Hodgson from the Conference Board of Canada, Ernie Stokes from the Centre for Spatial Economics and Dale Orr. The Minister of Finance met with Council members and other private-sector forecasters in the process of preparing the 2009 Budget. Council members were asked to review the Ministry of Finance's economic assumptions in February 2009. The members who were able to respond to this request provided letters stating that the forecast was reasonable, as of February 27, 2009. Subsequent revisions to private-sector forecasts have been reflected in Ontario's planning outlook up to March 13, 2009, the date the economic assumptions for the Budget were finalized.

External Factors Affecting Ontario's Growth

Ontario's economic outlook is heavily influenced by external factors such as U.S. economic growth, oil prices, the Canadian dollar exchange rate and interest rates. Private-sector forecasts for these factors are summarized in the table below.

External Variables
Private-Sector Forecast

Table 7

	2009			2010			2011		
	Low	Avg.	High	Low	Avg.	High	Low	Avg.	High
U.S. Real GDP Growth (Per Cent)	(3.4)	**(2.6)**	(1.4)	(0.2)	**1.9**	3.5	1.4	**3.4**	6.3
Crude Oil ($US per Barrel)	36.2	**44.5**	55.0	35.3	**60.0**	82.5	34.9	**61.9**	90.0
Canadian Dollar (Cents US)	75.4	**79.5**	83.5	77.6	**84.8**	94.3	78.2	**87.5**	94.3
Three-Month Treasury Bill Rate (Per Cent)	0.3	**0.6**	1.4	0.4	**1.1**	2.9	2.1	**3.1**	4.3
10-Year Government Bond Rate (Per Cent)	2.5	**2.9**	3.7	2.6	**3.3**	4.1	3.5	**4.4**	4.9

Sources: Bank of Canada, *Blue Chip Economic Indicators* (March 2009) and Ontario Ministry of Finance Survey of Forecasts (March 13, 2009).

The U.S. Economy

The U.S. economy is in the midst of one of the deepest recessions on record. The financial crisis that began in the U.S. subprime mortgage market escalated in the fall of 2008, creating further credit tightening and increasing global financial-market volatility. Housing starts and new home sales have reached all-time lows, while existing home sales and prices continue to decline. Foreclosure rates for residential mortgages continue to climb, leading to a further tightening in bank lending standards. Job losses and tighter credit conditions have led to reductions in consumer spending, particularly on durable goods such as autos. Businesses are reporting difficulty gaining access to credit to finance investment and maintain working capital. In response to the deteriorating outlook and ongoing financial-market turbulence, the Federal Reserve lowered its target for its key policy rate from 5.25 per cent in September 2007 to a range of zero to 0.25 per cent currently. The U.S. government has injected capital into many U.S. banks through its Troubled Asset Relief Plan (TARP), and the Federal Reserve has increased liquidity into the financial system. These actions are helping improve credit flows, but credit markets remain strained and it will take some time before they return to normal.

The U.S. government has taken strong steps to lift the economy out of recession, including passing the *American Recovery and Reinvestment Act*. The stimulus package includes infrastructure spending, personal tax cuts for lower- and middle-income households, business tax cuts designed to boost investment, as well as additional transfers to state governments. The U.S. Treasury has also introduced the Homeowner Affordability and Stability Plan that will reduce mortgage payments for many consumers as well as the number of home foreclosures. With U.S. housing construction now at extremely low levels, inventories of unsold houses should decrease. As inventories are pared down, housing starts and house prices are expected to stabilize. The eventual stabilization and recovery of the U.S. housing market should help credit conditions return to normal.

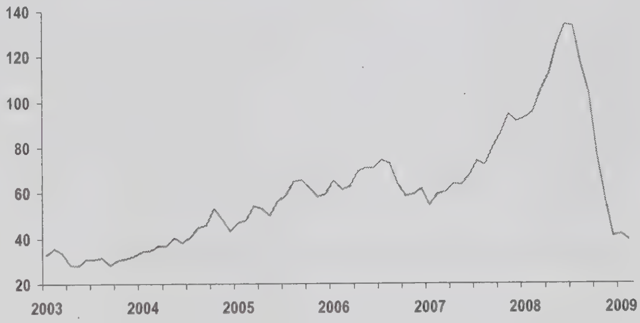
As it will take time for these initiatives to take effect, the U.S. economy is expected to decline through the first half of 2009, with consumption and business investment continuing to contract and exports weakening. Overall, U.S. GDP is expected to decline by 2.6 per cent in 2009. As the economic recovery takes hold, growth is expected to improve to 1.9 per cent in 2010. However, an unusually large degree of uncertainty remains surrounding the outlook, particularly the ultimate size and timing of the recovery. It is unclear when the U.S. housing market will stabilize and how long it will take for credit conditions to improve. There is a wide range of views on the U.S. outlook, with forecasts for growth in 2009 ranging from a low of -3.4 per cent to a high of -1.4 per cent. The range of outcomes for 2010 is even wider, with growth ranging from -0.2 per cent to 3.5 per cent.

Oil Prices

Crude oil prices have declined sharply, from a record daily high of $145 US per barrel in July 2008 to below $34 US per barrel in February 2009, a drop of more than 75 per cent in just seven months — the sharpest decline on record. The dramatic downturn of the U.S. and world economies has put downward pressure on oil demand and prices. The plunge in oil prices has prompted the Organization of the Petroleum Exporting Countries (OPEC) to cut its production, and oil companies to cancel or postpone their capital investments in oil exploration and development, reducing future oil supply. As a result, production may be unable to respond quickly to meet increased demand once global growth picks up steam, contributing to a rebound in prices. Private-sector forecasters, on average, expect oil prices to climb from $45 US per barrel in 2009 to $60 US per barrel in 2010 and $62 US per barrel in 2011. There is a wide range of views on oil prices, reflecting uncertainty about demand conditions and available supply.

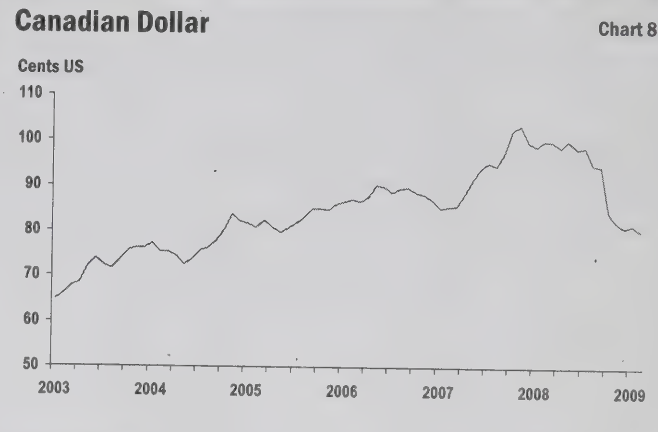
Crude Oil Prices Chart 7

$ US Per Barrel, Spot Oil Price: West Texas Intermediate



Source: New York Mercantile Exchange.

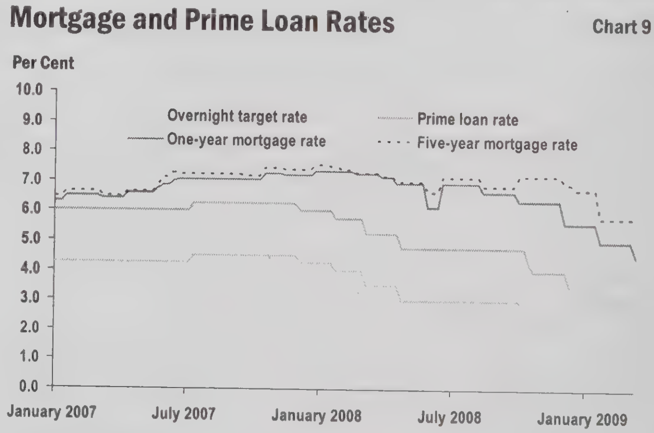
Canadian Dollar



Source: Bank of Canada.

The Canadian dollar depreciated sharply against the U.S. dollar last October, dipping below 77.0 cents US in mid-March, reflecting the heightened financial-market turmoil and dramatic deterioration in global growth prospects, as well as falling commodity prices. Other currencies, including the euro and British pound, also depreciated significantly against the U.S. dollar in the last year. Private-sector forecasters expect the dollar to average 79.5 cents US in 2009, with forecasts ranging from a low of 75.4 cents US to a high of 83.5 cents US. As oil and other commodity prices are expected to rise in 2010, this will once again place upward pressure on the dollar. Private-sector forecasters project the Canadian dollar will average 84.8 cents US in 2010 and 87.5 cents US in 2011.

Interest Rates and Credit Conditions



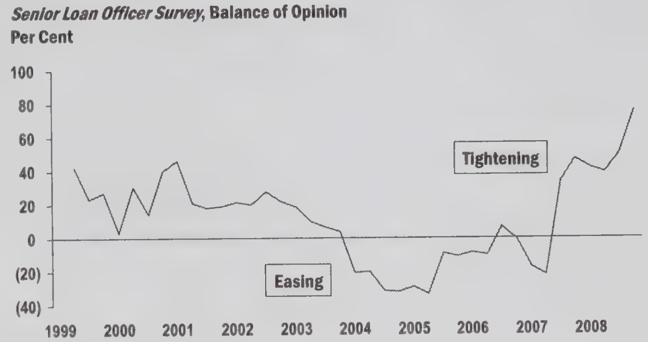
Source: Bank of Canada.

Interest rates have been lowered by central banks around the world since the financial turmoil intensified last autumn. The Bank of Canada has cut the overnight interest rate target by 400 basis points since December 2007 to a current historic low of 0.5 per cent. The Bank of Canada has also taken a number of extraordinary steps to provide liquidity to the financial market, including extending the duration of its loans to eligible institutions and expanding the type of collateral it accepts. In addition, since the fall of 2008 the federal government has agreed to put in place a number of programs to help ease the tension in financial markets, including the purchase of up to $125 billion in insured mortgage pools from Canadian financial institutions through the Canada Mortgage and Housing Corporation (CMHC) and the provision of a guarantee for banks' borrowings through the Canadian Lenders Assurance Facility.

Although central government interest rates are at record lows, the fall in interest rates for central government debt has not been fully matched by declines in interest rates for businesses, consumers and other levels of government. The prime lending rate, which influences a broad range of consumer loan rates, has declined by 375 basis points since December 2007. Over this period, the one-year mortgage rate has decreased by 270 basis points and the five-year mortgage rate by 160 basis points. Canadian household credit continues to grow at a pace well above the historical average, but the pace of activity has slowed. Canadian businesses have had difficulty accessing capital markets for financing, and have had to rely more on bank lending. However, the Bank of Canada's *Senior Loan Officer Survey* reported ongoing tightening in both the pricing and availability of credit.

Interest rates are expected to remain low throughout the year and rise over the medium term. Private-sector forecasters project the three-month treasury bill rate will average 0.6 per cent in 2009, down from 2.3 per cent in 2008, and the 10-year Government of Canada bond rate will average 2.9 per cent, down from 3.6 per cent. As global financial conditions improve and growth resumes, interest rates are projected to rise. The three-month treasury bill rate is expected to increase to 1.1 per cent in 2010 and 3.1 per cent in 2011. The 10-year Government of Canada bond yield is forecast to climb to 3.3 per cent in 2010 and 4.4 per cent in 2011.

Canadian Business Lending Conditions Tightening — Chart 10



Source: Bank of Canada.

Impacts of Changes in Key Assumptions on Ontario Real GDP Growth

As summarized in the following table, there is a wide range of views regarding the future path of the key external factors influencing the Ontario economy. In the past year, oil prices and the Canadian dollar have experienced record swings in values. The ongoing volatility in exchange rates and financial markets reflects the heightened uncertainty in the rapidly changing global economic outlook.

The following table shows the typical range for the first- and second-year impacts of these external factors on Ontario real GDP growth. These estimates are based on historical relationships and illustrate the upper and lower limits for the average response. They show the implications of changes in key assumptions in isolation from changes to other external factors. The combination of changing circumstances can also have a substantial bearing on the actual outcome.

Impacts of Changes in Key Assumptions on Ontario Real GDP Growth[1] (Percentage Point Increase)	Table 8	
	First Year	**Second Year**
Canadian Dollar Depreciates by Five Cents US	0.1 to 0.8	0.5 to 1.2
World Crude Oil Prices Decrease by $10 US per Barrel[2]	0.1 to 0.3	0.1 to 0.3
U.S. Real GDP Growth Increases by One Percentage Point	0.3 to 0.7	0.4 to 0.8
Canadian Interest Rates Decrease by One Percentage Point	0.1 to 0.5	0.2 to 0.6

1 Impacts based on changes being sustained. The estimated impacts shown in the table are most applicable to small changes in key assumptions. Very large shocks are likely to have less predictable effects, particularly due to their potential impact on confidence and expectations.

2 The impact estimates for lower world oil prices reflect the positive effect of lower oil prices on Ontario alone, and exclude the stimulative impact on U.S. and rest-of-world economic activity.

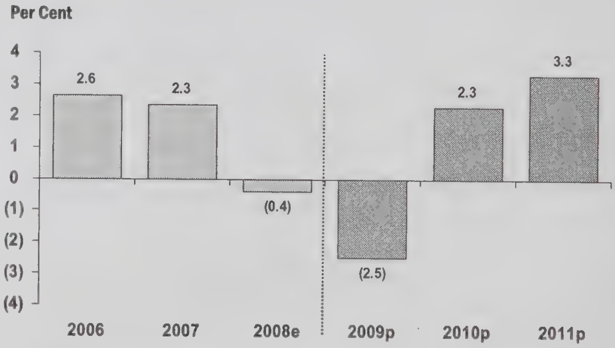
Source: Ontario Ministry of Finance.

Ontario Economy Expected to Rebound in 2010 and 2011

Ontario's economy is expected to recover as financial conditions continue to improve and fiscal actions to provide jobs take hold. Exports are also expected to recover next year, reflecting the competitive value of the Canadian dollar and a rebound in the U.S. economy.

Due to the global economic downturn, Ontario's economy is expected to remain weak throughout the first half of 2009. For the year as a whole, real GDP is expected to decline by 2.5 per cent, because resumed growth during the latter half of the year will only partially offset reduced output during the first half.

Ontario Real GDP Growth — Chart 11



e = estimate.
p = Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

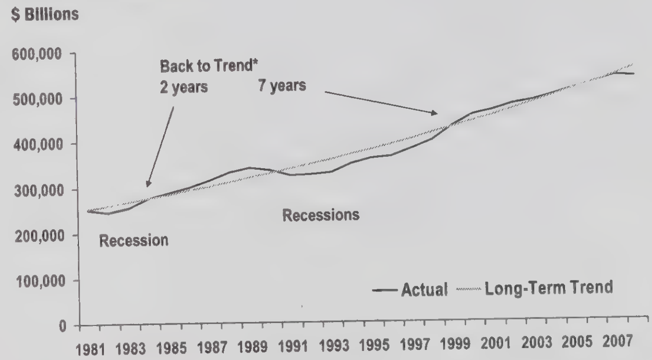
The biggest drag on Ontario's economy in 2009 is expected to be exports, which are projected to decline by 9.7 per cent. The decline in exports is occurring worldwide, reflecting the interconnectivity of trade and weaker global demand. Business investment in both machinery and equipment as well as commercial and industrial construction is expected to weaken in 2009, reflecting falling corporate profits, the weak economic climate and tighter lending conditions. Lower profits and sales are expected to lead to a two per cent decline in employment and an increase in the unemployment rate to 8.8 per cent in 2009. Consumer spending is expected to fall by 0.6 per cent in 2009 due to declining employment, lower consumer confidence and reduced personal wealth due to lower stock and home prices. Inflation is expected to remain low over the forecast horizon. Ontario's consumer price index (CPI) inflation rate is expected to fall to 0.4 per cent in 2009, from 2.3 per cent in 2008, reflecting

lower oil prices and weak domestic demand. Inflation is expected to average 1.9 per cent in 2010 and 2.0 per cent in 2011. The number of home resales is expected to decline by 25 per cent in 2009. As the inventory of unsold homes remains higher than normal, housing prices are projected to soften. New home construction is also being affected by weak demand and tighter credit conditions, with housing starts expected to fall to 50,000.

The recovery is expected to begin in the latter half of 2009, with growth resuming at a strengthening pace over 2010 and 2011, led by improving global economic conditions — most importantly, resumed growth in the U.S. economy. Improving U.S. demand should lead to a turnaround for Ontario's exports in 2010 and 2011. As economic growth strengthens and corporate profits rebound, businesses are expected to take advantage of low financing costs to expand operations and upgrade their technology and equipment. As economic growth rebounds, job creation will resume. In 2010 and 2011, 161,000 net new jobs are expected to be created. Job creation will contribute to stronger income and spending in 2010 and 2011. Housing activity is expected to recover in 2010 as confidence rebounds, incomes improve and households take advantage of low interest rates.

Ontario's Longer-Term Economic Outlook

Ontario Real GDP — Chart 12



*Trend based on real GDP per person of core working age.
Source: Ontario Ministry of Finance.

The economy tends to return to long-run trend GDP after a recession. During economic downturns, demand falls faster than supply, resulting in an unintentional buildup in inventories. Businesses are then forced to cut back production, reduce employment and scale back investment plans, all of which lead to lower labour income and reduced household spending. Particularly hard hit are housing, cars, furniture and other large-ticket items where purchasing decisions can be delayed. As a result, prices for these items soften.

Eventually during a downturn, inventories are run down and businesses need to replenish stocks. As well, prices for big-ticket items reach a point at which the improved affordability leads a rebound in household spending. As population increases, the demand for housing and other durable items such as autos and furniture outpaces the inventory of supply, leading to firmer prices, an increase in housing construction and accelerating sales of durable goods such as autos and furniture. All of these factors lead to increased employment and income, fuelling stronger spending and investment. In addition, since

households and businesses are cautious, innovations are not adopted as quickly during downturns. As the economic recovery takes hold, new products and processes are introduced and demand accelerates.

Past experience indicates that Ontario has always recovered from economic downturns and returned to long-term trend real GDP growth. The 1982 recession was followed by very strong real GDP growth of 4.5 per cent in 1983 and 7.9 per cent in 1984 — a recovery to long-term trend GDP in two years. The economy recovered less quickly from the recession of 1990 to 1992. Real GDP growth averaged 4.0 per cent over the 1993 to 1999 period, resulting in the economy recovering to trend GDP in seven years. The fiscal recovery plan outlined in this Budget is based on the assumption that the Ontario economy will recover to trend GDP in 2015–16, with Ontario's real GDP growth averaging 3.8 per cent and nominal GDP growth averaging 5.6 per cent over the 2012 to 2016 period.

In recent recessions, the Bank of Canada has helped boost the economy through downturns by lowering interest rates. This helps generate investment and spending activity by lowering the cost of borrowing. However, with the Bank of Canada's key policy rate currently near zero, there is an increased need for governments to support economic activity through fiscal action. This action helps support demand for goods and services and helps generate a recovery in employment and investment. Actions being taken by the Ontario government to stimulate the economy are outlined in Chapter I: *Confronting the Challenge: Building Ontario's Economic Future.*

Details of the Ontario Economic Outlook

The following table shows details of the Ministry of Finance's economic outlook for 2009 to 2011.

The Ontario Economy, 2006 to 2011 (Per Cent Change) — **Table 9**

	Actual			Projected		
	2006	2007	2008	2009	2010	2011
Real Gross Domestic Product	2.6	2.3	(0.4e)	(2.5)	2.3	3.3
Personal Consumption	3.5	3.8	3.0e	(0.6)	1.8	2.4
Residential Construction	0.9	2.0	(1.0e)	(7.0)	0.7	1.5
Non-residential Construction	10.3	14.1	(0.5e)	(6.1)	3.5	4.0
Machinery and Equipment	9.0	7.8	(1.0e)	(9.0)	4.3	5.9
Exports	0.6	0.9	(7.4e)	(9.7)	3.0	4.0
Imports	2.9	3.8	(3.8e)	(8.4)	3.1	3.3
Nominal Gross Domestic Product	4.3	4.5	1.7e	(2.4)	3.6	4.7
Other Economic Indicators						
Retail Sales	4.1	3.9	3.3	(1.0)	3.8	4.0
Housing Starts (000s)	73.4	68.1	75.1	50.0	55.0	65.0
Personal Income	5.3	5.2	4.1e	0.6	3.6	4.6
Labour Income	5.0	4.7	4.2e	0.3	3.2	4.2
Corporate Profits	5.9	(0.4)	(4.5e)	(24.8)	9.5	8.2
Consumer Price Index	1.8	1.8	2.3	0.4	1.9	2.0
Labour Market						
Employment	1.5	1.6	1.4	(2.0)	0.8	1.6
Job Creation (000s)	95	101	94	(135)	54	107
Unemployment Rate (per cent)	6.3	6.4	6.5	8.8	8.9	8.2

e = estimate.
Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

Comparison to the 2008 Ontario Budget

Ontario's real GDP declined by 0.4 per cent in 2008 — 1.5 percentage points lower than the Ministry of Finance's 2008 Budget forecast. Nominal GDP rose by 1.7 per cent — 1.1 percentage points lower than the Budget forecast. The labour market performed better than projected, with employment growing by 1.4 per cent — 0.4 percentage points above the Budget forecast and resulting in 26,000 more jobs than expected — and labour income growth was 4.2 per cent in 2008 — 0.8 percentage points higher than the Budget forecast. Corporate profits, however, were weaker than expected, declining by 4.5 per cent — 8.5 percentage points below the Budget forecast.

Forecasts for growth in 2009 and 2010 are lower than projected at the time of the 2008 Budget, reflecting significant deterioration in global economic conditions. Real GDP growth has been revised down 4.6 percentage points in 2009 and 0.4 percentage points in 2010. Nominal GDP has been lowered by 6.3 percentage points in 2009 and 1.0 percentage point in 2010. Growth in labour income and retail sales, key revenue drivers, is projected to be lower than in the 2008 Budget. Corporate profits are expected to decline sharply in 2009 and rebound in 2010; however, the level of profits in both 2009 and 2010 is lower than expected in the 2008 Budget.

Changes in Key Economic Forecast Assumptions, 2009 Budget Compared to 2008 Budget (Per Cent Change) — **Table 10**

	2008		2009		2010	
	2008 Budget	Actual	2008 Budget	2009 Budget	2008 Budget	2009 Budget
Real Gross Domestic Product	1.1	(0.4e)	2.1	(2.5)	2.7	2.3
Nominal Gross Domestic Product	2.8	1.7e	3.9	(2.4)	4.6	3.6
Retail Sales	3.4	3.3	3.7	(1.0)	4.1	3.8
Housing Starts (000s)	64.0	75.1	63.0	50.0	66.0	55.0
Personal Income	3.1	4.1e	4.0	0.6	4.4	3.6
Labour Income	3.4	4.2e	3.9	0.3	4.1	3.2
Corporate Profits	4.0	(4.5)	4.9	(24.8)	4.5	9.5
Employment	1.0	1.4	1.1	(2.0)	1.3	0.8
Job Creation (000s)	68	94	76	(135)	87	54
Key External Variables						
Crude Oil ($ US per Barrel)	85.0	99.6	80.0	47.3	80.0	55.5
U.S. Real Gross Domestic Product	1.7	1.1	2.6	(2.6)	2.8	1.9
Canadian Dollar (Cents US)	100.0	93.7	98.0	80.0	98.0	85.0
3-month Treasury Bill Rate	3.3	2.3	3.8	0.6	4.5	1.1
10-year Government Bond Rate	3.9	3.6	4.5	2.9	5.2	3.3

e = estimate.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, New York Mercantile Exchange, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* and Ontario Ministry of Finance.

Section D: Ontario's Revenue Outlook

The medium-term revenue forecast is based on the Ministry of Finance economic outlook and reflects the estimated impacts of government policy decisions. Total revenues are projected to increase at an annual average rate of 3.8 per cent from 2008–09 to 2011–12.

Summary of Medium-Term Outlook ($ Billions) — Table 11

Revenue	Interim 2008–09	Plan 2009–10	Outlook 2010–11	Outlook 2011–12
Taxation Revenue	65.4	64.9	68.6	71.8
Personal Income Tax	25.6	25.2	25.0	26.1
Sales Tax[1]	17.5	17.6	21.0	22.9
Corporations Tax	8.6	8.5	8.8	8.4
Ontario Health Premium	2.8	2.8	2.9	3.1
All Other Taxes	11.0	10.7	11.0	11.4
Government of Canada	16.6	19.2	23.0	20.5
Income from Government Business Enterprises	3.9	4.3	4.5	4.8
Other Non-Tax Revenue	7.5	7.6	7.6	7.4
Total Revenue	93.4	96.0	103.6	104.4

1 Includes temporary restrictions on input tax credits on businesses in 2010–11 and 2011–12.
Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

REFORMING ONTARIO'S TAX SYSTEM

The total tax package proposed in this Budget, net of federal transitional assistance of $4.3 billion, would reduce Ontario revenue by $2.3 billion over four years.

Personal Income Tax (PIT) revenue is projected to decline in 2009–10 and 2010–11, mainly due to the impact of measures proposed in this Budget. These tax measures are outlined in detail in Chapter III: *Reforming Ontario's Tax and Pension Systems*. The underlying PIT revenue base growth forecast is consistent with the economic outlook for wages and salaries growth. The PIT revenue base tends to grow at a faster rate than incomes due to the progressive structure of the tax system.

Personal Income Tax Revenue Outlook ($ Billions)				Table 12
	Interim	Plan	Outlook	
	2008–09	2009–10	2010–11	2011–12
Total Projected Revenue	25.6	25.2	25.0	26.1
Measures Included in Total[1]	–	(0.3)	(2.0)	(2.4)
Adjustments for Prior Years	0.5	–	–	–
Base Revenue[2]	25.0	25.5	27.0	28.6
Base Revenue Growth (Per Cent)	3.3	1.7	5.8	5.9
Wages and Salaries Growth (Per Cent)	4.2	0.3	3.2	4.2

[1] Represents the incremental revenue impact of all tax measures, announced previously and in this update, relative to their impact on revenue in 2008–09.

[2] "Total projected revenue" less the impact of tax measures or other one-time factors such as prior-year adjustments. Base revenue reflects the impact of underlying macroeconomic factors.

Note: Numbers may not add due to rounding.

This Budget introduces a proposal to replace the **Retail Sales Tax** with a new value-added sales tax starting on July 1, 2010. For a detailed discussion, see Chapter III: *Reforming Ontario's Tax and Pension Systems*. After adjusting for this and other tax measures, total sales tax revenue base growth is consistent with the underlying growth in consumer spending.

Sales Tax Revenue Outlook ($ Billions)				Table 13
	Interim	Plan	Outlook	
	2008–09	2009–10	2010–11	2011–12
Total Projected Retail Sales Tax (RST)	17.5	17.6	4.7	–
Total Projected New Sales Tax	–	–	16.3	22.9
Measures Included in Total[1]				
New Sales Tax Measures	–	–	1.7	2.2
Temporary Restriction of Input Tax Credits for Businesses	–	–	0.9	1.3
Other	–	0.1	0.1	0.1
RST Base Revenue[2]	17.5	17.5	18.4	19.3
RST Base Revenue Growth (Per Cent)	2.8	0.5	4.6	5.3
Nominal Consumption Growth (Per Cent)	4.6	0.1	3.3	4.1

[1] Represents the incremental revenue impact of all tax measures, announced previously and in this update, relative to their impact on revenue in 2008–09.

[2] "Total projected revenue" less the impact of tax measures or other one-time factors such as prior-year adjustments. Base revenue reflects the impact of underlying macroeconomic factors.

Note: Numbers may not add due to rounding.

Corporations Tax (CT) revenues are projected to decline over the medium term, largely due to the impact of measures proposed in this Budget. These tax measures are discussed in detail in Chapter III: *Reforming Ontario's Tax and Pension Systems.* After adjusting for tax measures and one-time revenue impacts in 2008–09, CT revenue base growth is consistent with the outlook for corporate profits. The one-time revenue impacts in 2008–09 include an adjustment for variances from estimates in past Public Accounts and the expectation that much of the 2008–09 shortfall is attributable to writedowns and income losses related to the global financial crisis.

Corporations Tax Revenue Outlook
($ Billions)

Table 14

	Interim	Plan	Outlook	
	2008–09	2009–10	2010–11	2011–12
Total Projected Revenue	8.6	8.5	8.8	8.4
Measures Included in Total[1]				
2009 Budget Measures	–	(0.1)	(0.7)	(1.6)
All Previous Measures	–	(0.2)	(0.8)	(1.1)
Adjustments for Prior Years	(0.8)	–	–	–
Other One-Time Impacts	(1.6)	–	–	–
Base Revenue[2]	11.0	8.9	10.3	11.1
Base Revenue Growth (Per Cent)	(3.6)	(19.4)	16.2	7.6
Corporate Profit Growth (Per Cent)	(4.5)	(24.8)	9.5	8.2

1 Represents the incremental revenue impact of all tax measures, announced previously and in this fiscal update, relative to their impact on revenue in 2008–09.

2 "Total projected revenue" less the impact of tax measures or other one-time factors such as prior-year adjustments. Base revenue reflects the impact of underlying macroeconomic factors.

Note: Numbers may not add due to rounding.

The **Ontario Health Premium (OHP)** forecast is based on the outlook for employment and personal income, both of which begin to recover in 2010. Ontario Health Premium revenues are projected to increase by an annual average of 3.2 per cent over the forecast period, roughly consistent with the outlook for personal incomes.

The forecast for **All Other Taxes** is projected to decline in 2009–10 and then increase moderately, reflecting the economic outlook discussed in Section C: *Ontario's Economic Outlook.* The forecast is developed on an item-by-item basis. For example, the forecast for Gasoline and Fuel Taxes is based on the outlook for gasoline and diesel pump prices, disposable income, and real gross domestic product (GDP) growth. The forecast reflects estimated impacts of all previously announced measures and those proposed in this Budget as discussed in Chapter III: *Reforming Ontario's Tax and Pension Systems.*

The forecast for **Government of Canada** transfers is based on existing federal–provincial funding arrangements. The outlook includes funding from the new infrastructure and training initiatives announced in the 2009 federal budget. Equalization payments, the Canada Health Transfer (CHT) and the Canada Social Transfer (CST) are all projected to increase in the medium term according to their respective funding formulas and the forecast for demographic, economic and government fiscal

information applied in the formulas. Also included in this outlook are federal transition payments to Ontario in moving to a single sales tax. This is discussed in detail in Chapter III: *Reforming Ontario's Tax and Pension Systems.*

The forecast for **Income from Government Business Enterprises** is based on information provided by each of these government enterprises. Revenues from government enterprises are projected to increase by $0.9 billion, or at an annual average rate of 6.9 per cent, from 2008–09 to 2011–12. Net incomes from Ontario Power Generation (OPG) and Hydro One Inc. (HOI) are projected to increase, primarily due to expected new generation, transmission and distribution investments coming into service. The projected increase in Ontario Lottery and Gaming Corporation (OLG) net income is largely due to planned strategic initiatives and expansions at a number of facilities. Net Income of the Liquor Control Board of Ontario (LCBO) is projected to decrease in 2009–10 due to the economic downturn before resuming growth in 2011–12.

The forecast for **Other Non-Tax Revenue** is based on information provided by government ministries and provincial agencies. Between 2008–09 and 2011–12, other non-tax revenues are projected to decrease by $0.1 billion. Reimbursements from municipalities decline due to the government's previously announced decision to upload the municipal share of Ontario Disability Support Program and Ontario Drug Benefit costs. This is partially offset by projected increases in Sales and Rentals; Other Fees, Licences and Permits; and Miscellaneous revenues.

Summary of Medium-Term Revenue Changes Since 2008 Budget ($ Billions) — **Table 15**

	Interim 2008–09	Plan 2009–10	Outlook 2010–11
Slower Economic Growth	(1.4)	(6.1)	(5.2)
Past-Year Tax Return Processing – Ongoing	(0.3)	(0.4)	(0.5)
Past-Year Tax Return Processing – One Time	(0.4)	0.0	0.0
Corporations Tax, Financial Markets – One Time	(1.6)	0.0	0.0
Tax Policy Measures	(0.0)	(0.3)	(0.1)
2009 Federal Budget	(0.0)	2.1	2.1
Equalization	0.0	0.3	0.7
Federal Transition Payment	0.0	0.0	3.0
Other Changes	0.2	(0.2)	(0.1)
Total Revenue Changes	(3.5)	(4.6)	(0.1)

Note: Numbers may not add due to rounding.

The medium-term forecast for total revenues is lower in each year compared to the 2008 Budget.

The deterioration in the **economic growth** outlook in 2008 and over the forecast period significantly lowers revenues over the 2008–09 to 2011–12 period. The economic outlook is discussed in detail in Section C: *Ontario's Economic Outlook.*

Since the 2008 Budget, processing of PIT and CT **past years' tax returns** has lowered the estimated 2007–08 revenue base upon which growth is applied for 2008–09 and beyond. In addition, there is a one-time net revenue decrease in 2008–09 because variances from past Public Accounts are picked up in the current year.

Much of the shortfall in 2008–09 **Corporations Tax** revenues is attributable to writedowns and other income losses related to the global financial crisis.

New tax measures announced since the 2008 Budget are discussed in detail in Chapter III: *Reforming Ontario's Tax and Pension Systems.*

The net impact of measures announced in the **2009 federal budget** increases revenues over the medium term. This includes new funding for infrastructure and training that boosts revenues, particularly in 2009–10 and 2010–11, and changes to the CHT funding formula. This is partially offset by the impact of tax measures announced in the 2009 federal budget.

Since the 2008 Budget, Ontario has qualified under the Equalization program to receive a payment of $0.3 billion in 2009–10, and is projected to be entitled to receive $0.7 billion in 2010–11. This is largely due to a decline in Ontario's fiscal capacity relative to other provinces, particularly with respect to resource revenues. Under the Equalization program, entitlements are based on a three-year weighted average of the Province's fiscal capacity relative to all of Canada, using data that are lagged by two years. For example, Ontario's 2010–11 entitlement is based on data from the federal government for 2006–07 and 2007–08, and projections for 2008–09.

As part of moving to a single sales tax, Ontario would receive transitional payments from the federal government in 2010–11 and 2011–12. This is discussed in detail in Chapter III: *Reforming Ontario's Tax and Pension Systems.*

Other changes result in a net reduction in the revenue outlook over the forecast period. The 2008 Budget assumed that the federal government would continue to fund previously announced time-limited transfers at 2008–09 levels. This assumption is no longer being made, given other funding announced in the 2009 federal budget. This revenue decline is partially offset by higher miscellaneous Non-Tax Revenue. Also included in other changes are increased revenues due to tax audit and collection improvements being implemented, beginning in 2009–10.

RISKS TO THE REVENUE OUTLOOK

There is currently an unusual degree of uncertainty regarding Ontario's economic and revenue outlook given the global economic slowdown, particularly in the United States, and ongoing turmoil in global financial markets. This section highlights some of the key sensitivities and risks to the fiscal plan that could arise from unexpected changes in economic conditions. These estimates are only guidelines and actual results can vary depending on the composition and interaction of the various factors. The risks are those that could have the most material impact on the largest revenue sources. There is a broader range of additional risks that are not included because they are either not as material or are difficult to quantify. For example, Income from Government Enterprises, representing roughly four per cent of total revenues, could be affected by changes in each business's particular business environment; for instance, by economic, market, policy and regulatory developments. Likewise, the outlook for Government of Canada transfers is subject to future negotiations and legislation.

Selected Economic and Revenue Risks and Sensitivities		Table 16
Item/Key Components	**2009–10 Assumption**	**2009–10 Sensitivities**
Total Revenues		
– Real GDP	2.5 per cent decline in 2009	$725 million revenue change for each percentage point change in real GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
– GDP Deflator	0.1 per cent increase in 2009	
Total Taxation Revenues		
– Revenue Base[1]	2.8 per cent decline in 2009–10	$470 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
– Nominal GDP	2.4 per cent decline in 2009	
Personal Income Tax (PIT) Revenues		
– Revenue Base	1.7 per cent growth in 2009–10	
Key Economic Assumptions		
– Wages and Salaries	0.3 per cent growth in 2009	$314 million revenue change for each percentage point change in wages and salaries growth.
– Employment	2.0 per cent decline in 2009	
– Unincorporated Business Income	2.7 per cent growth in 2009	$31 million revenue change for each percentage point change in unincorporated business income growth.
Key Revenue Assumptions		
– Net Capital Gains Income	42.0 per cent decrease in 2009	$10 million revenue change for each percentage point change in net capital gains income growth.
– RRSP Deductions	0.9 per cent growth in 2009	$16 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth.
– 2008 Tax-Year Assessments[2]	$23.7 billion	$237 million revenue change for each percentage point change in 2008 PIT assessments.[3]
– 2007 Tax-Year and Prior Assessments[2]	$1.3 billion	$13 million revenue change for each percentage point change in 2007 and prior PIT assessments.[3]

Selected Economic and Revenue Risks and Sensitivities		
Item/Key Components	**2009–10 Assumption**	**2009–10 Sensitivities**
Retail Sales Tax Revenues		
– Revenue Base	0.5 per cent growth in 2009–10	
Includes:		
– Taxable Household Spending	0.6 per cent growth in 2009–10	
– Other Taxable Spending	0.3 per cent growth in 2009–10	
Key Economic Assumptions		
– Retail Sales	1.0 per cent decline in 2009	
– Nominal Consumption Expenditure	0.1 per cent growth in 2009	$110 million revenue change for each percentage point change in nominal consumption expenditure growth.
Corporations Tax Revenues		
– Revenue Base	19.4 per cent decline in 2009–10	
– Corporate Profits	24.8 per cent decline in 2009	$65 million revenue change for each percentage point change in pre-tax corporate profit growth.
– 2008–09 Tax Assessment Refunds[4]	$2.6 billion payable in 2009–10	$26 million revenue change in the opposite direction for each percentage point change in 2008–09 refunds.[3]
– 2008–09 Tax Payments upon Filing[4]	$0.9 billion receivable in 2009–10	$9 million revenue change for each percentage point change in 2008–09 payments upon filing.[3]
– 2008–09 Tax Assessment Payments[4]	$1.2 billion receivable in 2008–09 and 2009–10	$12 million revenue change for each percentage point change in 2008–09 assessment payments.[3]
Employer Health Tax Revenues		
– Revenue Base	0.2 per cent growth in 2009–10	
– Wages and Salaries	0.3 per cent growth in 2009	$40 million revenue change for each percentage point change in wages and salaries growth.
Ontario Health Premium (OHP) Revenues		
– Revenue Base	1.4 per cent growth in 2009–10	
– Personal Income	0.6 per cent growth in 2009	$26 million revenue change for each percentage point change in personal income growth.
– 2008 Tax-Year Assessments	$2.6 billion	$26 million revenue change for each percentage point change in 2008 OHP assessments.

Selected Economic and Revenue Risks and Sensitivities		
Item/Key Components	**2009–10 Assumption**	**2009–10 Sensitivities**
Gasoline Tax Revenues		
– Revenue Base	0.3 per cent growth in 2009–10	
– Gasoline Pump Prices	86.0 cents per litre in 2009	$4 million revenue change in the opposite direction for each cent per litre change in gasoline pump prices.
Fuel Tax Revenues		
– Revenue Base	1.9 per cent growth in 2009–10	
– Real GDP	2.5 per cent decline in 2009	$5 million revenue change for each percentage point change in real GDP growth.
Land Transfer Tax Revenues		
– Revenue Base	16.2 per cent decline in 2009–10	
– Housing Resales	25.0 per cent decline in 2009	$12 million revenue change for each percentage point change in both the number and prices of housing resales.
– Resale Prices	8.0 per cent decline in 2009	
Canada Social Transfer[5]		
– Ontario Population Share	38.9 per cent in 2009–10	$11 million revenue change for each tenth of a percentage point change in population share.

1 Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.

2 Ontario 2008 Personal Income Tax (PIT) is a forecast estimate because 2008 tax returns are yet to be assessed by the Canada Revenue Agency. Some tax amounts for 2007 and prior years are also yet to be assessed in 2009, and estimates of these amounts are included in the revenue outlook.

3 Any changes in the 2008 or prior-year PIT assessments or 2008–09 Corporation Tax revenues will have an effect on 2009–10 revenues through a change in the revenue base upon which that year's growth is applied.

4 Corporations Tax revenues for 2008–09 are still subject to uncertainty because a high proportion of corporations have until June 30, 2009 to file their 2008 tax returns and much of the activity that arises from that (payments on filing, refunds, assessment payments) will occur after this Budget.

5 2009–10 sensitivities for Canada Health Transfer and Equalization amounts are not included in the table as these amounts are fixed by federal legislation.

Section E: Ontario's Medium-Term Expense Outlook

The Province's total expense outlook is projected to grow from $97.3 billion in 2008–09 to $112.9 billion by 2011–12.

Total program spending is projected to increase from $88.5 billion in 2008–09 to $101.9 billion in 2011–12, reflecting the government's commitment to preserve vital services and to protect and create jobs through focused and timely investments in areas such as infrastructure and skills training.

- Total **health** sector spending is proposed to increase from $40.7 billion in 2008–09 to $47.4 billion in 2011–12. The government will continue to support essential programs such as the Ontario Health Insurance Plan (OHIP) and the Ontario Drug programs, while investing strategically to continue transforming the health care sector to meet the needs of Ontarians.
- Total **education** sector spending, including the net expense of the Province's school boards, will increase by $2.1 billion, or 15.6 per cent, from $13.3 billion in 2008–09 to $15.4 billion in 2011–12, primarily due to increased Provincial grants to school boards to support improved student achievement, as well as salary increases for education sector staff that were planned for in the 2008 Budget to be offset from the Contingency Fund.
- Total **children's and social services** sector funding will increase by $0.4 billion, or 3.4 per cent, from $12.1 billion in 2008–09 to $12.5 billion in 2011–12, primarily due to the acceleration of the phase-in of the Ontario Child Benefit, and a further two per cent increase in social assistance benefits.
- Total **postsecondary education and training** sector spending, including the net expense of the Province's 24 colleges of applied arts and technology, will grow by $0.5 billion, from $6.1 billion in 2008–09 to $6.6 billion in 2009–10 and 2010–11. This increase is primarily related to spending on labour market and training initiatives, as well as new spending in the postsecondary sector to improve the skills of Ontarians. Total sector spending will decrease to $6.4 billion by 2011–12 when time-limited federal funding for labour market training comes to an end.
- **Justice** sector spending will increase by $0.7 billion from $3.8 billion in 2008–09 to $4.5 billion in 2011–12. This level of spending includes investments for various justice and community safety initiatives, including courthouses and correctional facilities.
- **Other Programs spending** will increase from $12.4 billion in 2008–09 to $15.7 billion in 2011–12. This increase includes the proposed temporary relief for Ontarians through the Sales Tax Transition Benefit, and the Small Business Transitional Credit to help ensure a smooth transition to the new sales tax system. Spending in other programs will peak at $21.1 billion in 2010–11, largely reflecting the impact of time-limited investments in infrastructure.

Holding the average annual growth of program spending to less than that of revenue growth is a key element of the government's fiscal plan. Core program spending growth is expected to average 3.6 per cent annually between 2008–09 and 2011–12, which is lower than the 3.8 per cent average annual growth projected for revenue during this period.

Included in the total expense outlook is interest on Provincial debt, which is expected to increase over the medium term from $8.9 billion in 2008–09 to $11.1 billion in 2011–12, mainly due to additional borrowings to fund the projected deficits and investments in capital assets.

RISKS TO EXPENSE OUTLOOK

An unusual degree of uncertainty remains regarding Ontario's economic outlook, and the impact it could have on the Province's overall fiscal plan, including the expense outlook. Key cost drivers within the Province's expense outlook are demand-driven programs and services that arise from changes in the economic outlook, utilization or enrolment rates. These pressures are especially evident in the health, education and social services sectors, which make up over two-thirds of total Provincial expense, and include assumptions about expected utilization, enrolment rates and caseloads.

Ontario's economy has been hit hard by the global economic downturn, which includes a recession in the United States, heightened financial market turmoil, and a sharp contraction in manufacturing. Given the high level of uncertainty arising from the global economic slowdown, particularly in the short run, the government's 2009–10 expense plan includes contingency funds totalling $3.4 billion. The contingency funds will provide the government with the needed flexibility to respond immediately to further changes resulting from ongoing global economic turbulence in a way that maintains public services while protecting and creating jobs for Ontarians.

The following table provides a summary of key expense risks and sensitivities that could result from unexpected changes in economic conditions and program demands. A change in these factors could impact total expense, causing variances in the overall fiscal forecast. It should be cautioned that these sensitivities and risks are illustrative and can vary, depending on the nature and composition of potential risks.

Selected Expense Risks and Sensitivities		Table 17
Program/Sector	**2009–10 Assumption**	**2009–10 Sensitivity**
Health Sector	Annual growth of 4.5 per cent.	One per cent change in health spending: $426 million.
Hospitals' Net Expense	Annual growth of 3.5 per cent.	One per cent change in hospitals' net expense: $192 million.
Drug Programs	Annual utilization growth of less than 5.0 per cent.	One per cent change in program expenditure of all drug programs: $43 million (seniors and social assistance recipients).
Long-Term Care Homes	75,866 long-term care home beds. Average Provincial annual operating cost per bed in a long-term care home is $41,600.	One per cent change in number of beds: approximately $32 million.
Home Care	Approximately 17 million hours of homemaking and support services.	One per cent change in hours of homemaking and support services: approximately $5 million.
	Approximately 10 million nursing and professional visits.	One per cent change in nursing and professional visits: approximately $7 million.
University Students[1]	331,339 full-time undergraduate and graduate students.	One per cent enrolment change: $34 million.
Ontario Works	225,482 average annual caseload.	One per cent caseload change: $19 million.
Ontario Disability Support Program	259,874 average annual caseload.	One per cent caseload change: $32 million.
College Students	162,070 full-time students.	One per cent enrolment change: $13 million.
Interest on Debt	Average cost of 2009–10 borrowing is forecast to be approximately 4.5 per cent.	The 2009–10 impact of a 100 basis-point change in borrowing rates is forecast to be approximately $480 million.
Correctional System	3.3 million adult inmate days per year. Average cost $164 per inmate per day.	One per cent change in inmate days: $5.3 million.

1 Based on 2008–09 estimates.

Compensation costs and wage settlements are also key cost drivers and could have a substantial impact on the finances of both broader public-sector partners and the Province.

Selected Compensation Costs — **Table 18**

Sector	Cost of 1% Salary Increase	Size of Sector
OHIP Payments to Physicians[1]	$95 million	Just over 23,800 physicians in Ontario, comprising 11,300 family doctors and 12,500 specialists.
Hospital Nurses[2]	$52 million	Over 58,500 full-time equivalent nurses in hospitals.
Elementary and Secondary School Staff[3]	$150 million	Almost 203,000 full-time equivalent staff including teachers, principals, administrators, and support and maintenance staff.
College Staff[4]	$17 million	About 37,200 staff including faculty, administrators, and support and maintenance staff.
Ontario Public Service[5]	$59 million	Over 68,000 public servants.

1 Dollar values based on 2009–10 allocation; physician count based on full year 2007–08 (most current available).
2 Based on 2008–09.
3 One per cent increase in salary benchmarks in Grants for Student Needs based on 2008–09 school year.
4 Based on 2007–08 costs.
5 Based on 2007–08, reflects total compensation costs.

Contingent Liabilities

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are additional risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Significant contingent liabilities are described as follows.

Ontario Nuclear Funds Agreement

The Province has certain responsibilities with respect to nuclear used fuel waste management and nuclear station decommissioning. The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management.

Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds for a fixed volume of used fuel. As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario consumer price index for the nuclear used fuel waste management fund. Ontario has also provided a direct Provincial guarantee to the Canadian Nuclear Safety Commission on behalf of OPG for up to $760 million (effective January 1, 2008), which relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds.

Obligations Guaranteed by the Province

Ontario provides guarantees on loans on behalf of various parties. The authorized limit for loans guaranteed by the Province as at March 31, 2008, was $2.4 billion. The outstanding loans guaranteed and other contingencies amounted to $2.3 billion at March 31, 2008.

Social Housing — Loan Insurance Agreements

The Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation for any net costs, including any environmental liabilities incurred as a result of project defaults, for all non-profit housing projects in the Provincial portfolio. At March 31, 2008, there were $8.0 billion of mortgage loans outstanding.

Claims Against the Crown

There are claims outstanding against the Crown arising from legal action, either in progress or threatened, in respect of Aboriginal land claims, breach of contract, damages to persons and property, and like items. At March 31, 2008, there were 72 claims outstanding against the Crown that were for amounts over $50 million.

Canadian Blood Services

The provincial and territorial governments of Canada have entered into a Canadian Blood Services Excess Insurance Captive Support Agreement (the "Captive Support Agreement") with Canadian Blood Services (CBS) and Canadian Blood Services Captive Insurance Company Limited (CBSI), a wholly owned subsidiary of CBS established under the laws of British Columbia. Under the Captive Support Agreement, each government indemnifies CBSI for its pro rata share of any payments that CBSI becomes obliged to make under a comprehensive blood risks insurance policy it provides to CBS. The policy has an overall limit of $750 million, which may cover settlements, judgments and defence costs. The policy is in excess of, and secondary to, a $250 million comprehensive insurance policy underwritten by CBS Insurance Company Limited, a subsidiary of CBS domiciled in Bermuda. Given current populations, Ontario's maximum potential liability under the Captive Support Agreement is approximately $376 million. The Province is not aware of any proceedings that could lead to a claim against it under the Captive Support Agreement.

MEDIUM-TERM FISCAL OUTLOOK

Ontario's medium-term fiscal outlook reflects the impact of the global economic downturn on Ontario's revenues, as well as the immediate measures the government is taking to position Ontario to be more competitive, so families and businesses can take advantage of the next generation of jobs and growth.

The government is currently projecting deficits of $14.1 billion in 2009–10, $12.2 billion in 2010–11 and $9.7 billion in 2011–12. The Province is projected to return to a balanced budget no later than 2015–16 by holding the average annual growth of core program expense to less than the average annual growth of revenue.

Medium-Term Fiscal Plan and Outlook **Table 19**
($ Billions)

	Interim	Plan	Outlook	
	2008-09	2009-10	2010-11	2011-12
Total Revenue	93.4	96.0	103.6	104.4
Expense				
Programs				
Health Sector	40.7	42.6	45.2	47.4
Education Sector[1]	13.3	14.2	14.6	15.4
Postsecondary Education and Training Sector	6.1	6.6	6.6	6.4
Children's and Social Services Sector	12.1	12.7	12.9	12.5
Justice Sector	3.8	3.9	4.4	4.5
Other Programs	12.4	19.6	21.1	15.7
Total Programs	88.5	99.6	104.7	101.9
Interest on Debt	8.9	9.3	9.9	11.1
Total Expense	97.3	108.9	114.6	112.9
Reserve	–	1.2	1.2	1.2
Surplus/(Deficit)	(3.9)	(14.1)	(12.2)	(9.7)

1 Excludes Teachers' Pension Plan.
Note: Numbers may not add due to rounding.

Total Provincial revenue is projected to increase from $93.4 billion in 2008–09 to $104.4 billion in 2011–12 — an annual average growth rate of 3.8 per cent over this period.

Total expense over the medium term is projected to increase from $97.3 billion in 2008–09 to $112.9 billion in 2011–12 — reflecting the immediate measures the government is taking in this Budget to protect and create jobs.

In recognition of the ongoing uncertainty in the global economic environment, the fiscal plan includes prudence in the form of a reserve of $1.2 billion each year. In addition, the fiscal plan also includes contingency funds totalling $3.4 billion in 2009–10 to provide flexibility to respond to the impact of further global economic challenges.

Core Program Expense ($ Billions) — **Table 20**

	Interim	Plan	Outlook	
	2008–09	2009–10	2010–11	2011–12
Total Program Expense	88.5	99.6	104.7	101.9
Less: Non-Core Program Expense				
Pension Expense	1.7	2.3	2.9	3.7
Sales Tax Transitional Support	–	–	3.1	1.3
Labour Market and Skills Training Investments	–	0.3	0.3	–
Infrastructure Investments[1]	–	3.2	3.4	0.5
Total Non-Core Program Expense	1.7	5.8	9.7	5.5
Total Core Program Expense	86.8	93.7	95.0	96.4

[1] Includes Provincial matching of federal short-term stimulus funding.
Note: Numbers may not add due to rounding.

A key element of the government's plan to eliminate the deficit by 2015–16 is ensuring that core program expense growth is lower than growth in revenue. Excluding the impact of non-core program expense such as time-limited infrastructure investments and labour market and skills training funding, core Provincial program expense will only grow by an annual average rate of 3.6 per cent between 2008–09 and 2011–12, which is lower than the 3.8 per cent growth projected for revenue over the same period.

Non-core program expense totals $1.7 billion in 2008–09, $5.8 billion in 2009–10, $9.7 billion in 2010–11 and $5.5 billion in 2011–12.

- **Pension expense** increases from $1.7 billion in 2008–09 to $2.3 billion in 2009–10, to $2.9 billion in 2010–11 and $3.7 billion in 2011–12. These increases mainly reflect the accounting for the decline in the market value of pension fund assets in 2008.
- Temporary relief of $3.1 billion in 2010–11 and $1.3 billion in 2011–12 is proposed for Ontarians in the form of a **Sales Tax Transition Benefit**, and for Ontario small businesses in the form of a **Small Business Transition Credit** to help ensure a smooth transition to the new sales tax system.
- Spending on targeted **labour market and skills training** will increase by $0.3 billion in 2009–10 and 2010–11 due to proposed enhancements to the Canada–Ontario Labour Market Agreement and Labour Market Development Agreement. This funding will support several new and expanded employment and training initiatives, including increased support for literacy and

basic skills training, an expansion of summer employment opportunities for youth, and enhanced support for newcomers to improve their employability and attachment to the labour market.

- **Infrastructure Investments** totalling $3.2 billion in 2009–10, $3.4 billion in 2010–11 and $0.5 billion in 2011–12 will, in the short term, preserve and create jobs in Ontario, while making the infrastructure improvements necessary for economic growth in the future.

KEY CHANGES SINCE THE 2008 ONTARIO BUDGET

The 2008 Budget projected balanced budgets over the medium term. Since that time, however, the global economic downturn has significantly impacted Ontario's economy and, in turn, Provincial revenues. The government is now projecting deficits of $3.9 billion in 2008–09, $14.1 billion in 2009–10, and $12.2 billion in 2010–11. These deficits mainly reflect decreases in the revenue forecast resulting from the global economic downturn as well as the impact of time-limited investments the government is making in key priority areas such as infrastructure and skills training to help protect and create jobs.

The following table provides an overview of key changes to the medium-term revenue and expense outlooks, and the reserve since the release of the 2008 Budget.

Impact of Key Changes to the Medium-Term Fiscal Outlook Since the 2008 Budget ($ Billions)			**Table 21**
	Interim 2008–09	**Plan 2009–10**	**Outlook 2010–11**
Surplus/(Deficit) as per 2008 Budget Fiscal Plan	0.0	0.0	0.0
Total Revenue Changes Since 2008 Budget	(3.5)	(4.6)	(0.1)
Expense Changes Since 2008 Budget:			
Changes to Core Program Expense			
Investments in Children's and Social Services	0.3	0.7	0.8
Investments in Health	0.2	0.0	0.3
Increased Education Funding	0.1	0.8	1.2
Investments in Justice	0.1	0.0	0.3
All Other Core Program Expense Changes	0.4	3.1	0.4
Total Change in Core Program Expense	1.2	4.7	3.0
Changes to Non-Core Program Expense			
Infrastructure Investments[1]	–	3.2	3.4
Higher Pension Expense	0.0	0.8	1.5
Labour Market and Skills Training Investments	–	0.3	0.3
Sales Tax Transitional Support	–	–	3.1
Total Change in Non-Core Program Expense	0.0	4.3	8.3
Change in Interest on Debt Expense	(0.0)	0.3	0.8
Total Expense Changes	1.1	9.3	12.1
Change in Reserve	(0.8)	0.2	0.0
2009 Budget Surplus/(Deficit)	(3.9)	(14.1)	(12.2)

[1] Includes Provincial matching of federal short-term stimulus funding.
Note: Numbers may not add due to rounding.

Total revenue has decreased by $3.5 billion in 2008–09, $4.6 billion in 2009–10 and $0.1 billion in 2010–11, mainly as a result of the challenges presented by the global economic downturn and the estimated impact of government policy decisions. Specific details of the revenue forecast can be found in Section D: *Ontario's Revenue Outlook*.

The majority of changes in Provincial program spending since the 2008 Budget are related to non-core program expense — mainly time-limited investments being made to protect and create jobs for Ontarians while also maintaining key public services.

Core program expense has increased by $1.2 billion in 2008–09, $4.7 billion in 2009–10 and $3.0 billion in 2010–11. Key changes include:

- Increased spending in **children's and social services** of $0.3 billion in 2008–09, $0.7 billion in 2009–10 and $0.8 billion in 2010–11. These are largely due to additional support for social assistance, including a further two per cent rate increase in 2009–10 and the accelerated phase-in of the Ontario Child Benefit.
- An increase in **health** expense largely reflects higher projected Ontario Health Insurance Plan (OHIP) spending to provide health care services to Ontarians.
- Total **education** spending, including the net expense of the Province's school boards, will be $0.1 billion higher in 2008–09, $0.8 billion higher in 2009–10 and $1.2 billion higher in 2010–11. The increase in spending is primarily due to provincial grants to school boards to support improved student achievement, as well as salary increases for education sector staff that were planned for in the 2008 Budget to be offset from the Contingency Fund.
- **Justice** expense increased by $0.1 billion in 2008–09, primarily for the Criminal Injuries Compensation Board, community safety and public inquiries. In 2010–11, the sector will also see an increase of approximately $0.3 billion, primarily for infrastructure investments.
- **All other core program expense** changes of $0.4 billion in 2008–09, $3.1 billion in 2009–10 and $0.4 billion in 2010–11 reflect various investments in key priority areas to help protect and create jobs, including maintaining contingency funds of $0.3 billion in 2008–09 and $3.4 billion in 2009–10 in recognition of ongoing global economic uncertainty.

Non-core program expense will increase by $4.3 billion in 2009–10 and $8.3 billion in 2010–11. These include:

- **Infrastructure Investments** totalling $3.2 billion in 2009–10 and $3.4 billion in 2010–11 reflect the importance of making substantial infrastructure investments in the short term that will not only preserve and create jobs in Ontario, but will also make the infrastructure improvements necessary for economic growth in the future.
- **Pension** expense is $0.8 billion higher in 2009–10 and $1.5 billion higher in 2010–11 compared to what was projected at the time of the 2008 Budget. The increases mainly reflect the accounting for the decline in the market value of pension fund assets in 2008.
- **Labour Market and Skills Training Investments** will increase by $0.3 billion in 2009–10 and 2010–11 due to proposed enhancements to the Canada–Ontario Labour Market Agreement and the Labour Market Development Agreement. This funding will support several new and expanded employment and training initiatives, including increased support for literacy and basic skills training, an expansion of summer employment opportunities for youth, and enhanced support for newcomers to improve their employability and attachment to the labour market.

- Temporary relief of $3.1 billion in 2010–11 is proposed for Ontarians in the form of a **Sales Tax Transition Benefit**, and for Ontario small businesses in the form of a **Small Business Transition Credit** to help ensure a smooth transition to the new sales tax system.

Interest on Debt increases by $0.3 billion in 2009–10 and $0.8 billion in 2010–11, mainly from higher borrowings to fund the projected deficits and net investments in capital assets.

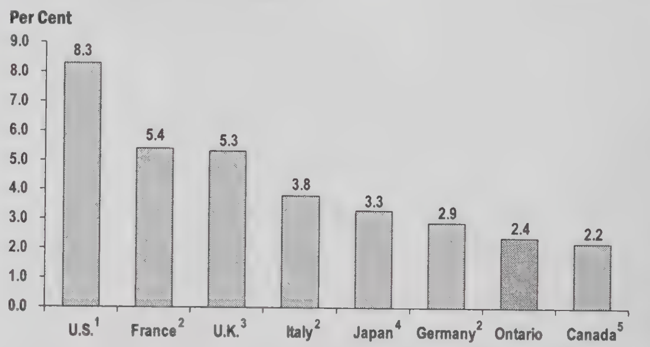
The $0.8 billion **reserve** in 2008–09, included to protect the fiscal plan against adverse changes in the Province's fiscal outlook, was used to offset the effects of slower economic growth on the Province's fiscal performance. The 2009–10 reserve has been increased to $1.2 billion from the 2008 Budget, in recognition of the increased uncertainty arising from the deteriorating global economic outlook.

THE PLAN TO ELIMINATE THE DEFICIT

When the government took office in 2003, it inherited a hidden fiscal deficit of $5.5 billion as well as deficits in key areas such as health care, education and infrastructure. The challenges were significant. But, over the last five years, the government has made major investments in the public services that matter most to Ontarians, while eliminating the fiscal deficit in less than three years.

Since the fall of 2008, the Ontario economy has experienced the effects of global economic challenges, resulting in significant revenue declines. The government is now projecting a $3.9 billion deficit in 2008–09. The global economic crisis continues to affect Ontario in the short term, resulting in a projected deficit of $14.1 billion in 2009–10.

Jurisdictional Comparison: 2009–10 Deficit-to-GDP — Chart 13

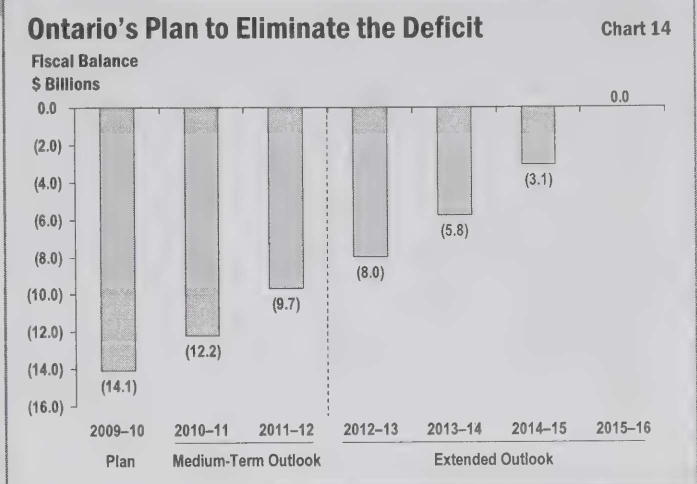


Note: Not all jurisdictions use comparable accounting methodology.
Sources: [1] Congressional Budget Office (U.S.); [2] European Commission; [3] U.K. Treasury – Pre-Budget Report (November 2008); [4] Organisation for Economic Co-operation and Development (OECD); [5] 2009 Federal Budget.

Similar to 2008–09, Ontario's deficit relative to the size of its economy in 2009–10, at 2.4 per cent, is low among industrialized jurisdictions impacted by the global economic crisis. This reflects the government's commitment to preserve vital services and to protect and create jobs through focused and timely investments in areas such as infrastructure and skills training, while continuing to prudently manage the Province's finances.

The *Fiscal Transparency and Accountability Act, 2004* requires the government to outline a recovery plan to balance the budget.

The government's recovery plan will steadily reduce the Provincial deficit from the $14.1 billion forecasted in 2009–10 to a balanced budget no later than 2015–16.



Key elements of the government's fiscal plan to eliminate the deficit by 2015–16 include:

- holding the average annual rate of growth in core program expense to less than the average annual rate of growth in total revenue over the medium term and throughout the period of the recovery plan;
- adopting efficiency practices and managing overall expenditures, including a $1.0 billion efficiency target in 2011–12;
- promoting principled and sustainable federal–provincial fiscal arrangements;
- maintaining a prudent debt-to-GDP ratio; and
- maintaining a cautious and prudent fiscal plan, including contingency funds and a reserve.

Adopting efficiency practices and managing overall expenditures are key to achieving a balanced budget. Excluding the impact of non-core program expense such as time-limited infrastructure investments and other funding for immediate measures to protect and create jobs, core Provincial program expense is expected to grow by 3.6 per cent a year on average between 2008–09 and 2011–12 — lower than the 3.8 per cent annual average growth forecast for revenue over the same period.

Past experience indicates Ontario has always recovered from economic downturns and returned to long-term trend real gross domestic product (GDP) growth. The fiscal recovery plan is based on the forecast that the Ontario economy will recover to its historical trend GDP in 2015–16, with Ontario's real GDP growth averaging 3.8 per cent and nominal GDP growth averaging 5.6 per cent over the 2012 to 2016 period. Consistent with these GDP planning data, revenue growth is projected to increase to an average annual rate of 4.6 per cent between 2011–12 and 2015–16. Growth in the Ontario economy and revenue alone, however, cannot bring the Province back to balance — program expense must also grow at a sustainable rate, and must grow at a rate less than the average annual growth in revenue. For this reason, during this same period, program expense growth will be held to an average annual growth rate of 2.3 per cent in order to achieve balance while protecting core public services.

Ontario's Fiscal Recovery Plan
($ Billions) **Table 22**

	Plan	Medium-Term Outlook		Extended Outlook			
	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16
Revenue	96.0	103.6	104.4	109.3	114.3	119.6	125.2
Expense							
Programs	99.6	104.7	101.9	104.2	106.6	109.0	111.5
Interest on Debt	9.3	9.9	11.1	11.6	12.0	12.2	12.2
Total Expense	108.9	114.6	112.9	115.8	118.5	121.2	123.7
Reserve	1.2	1.2	1.2	1.5	1.5	1.5	1.5
Surplus/(Deficit)	(14.1)	(12.2)	(9.7)	(8.0)	(5.8)	(3.1)	0.0

Note: Numbers may not add due to rounding.

FISCAL PRUDENCE

In addition to maintaining a prudent approach in response to the impacts of the global economic downturn, the fiscal plan includes other key elements of prudence each year to help protect the government's overall fiscal objectives and contribute to the achievement of fiscal targets.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions.

Consistent with requirements under the *Fiscal Transparency and Accountability Act, 2004,* the fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense, including those resulting from changes in Ontario's economic performance. The fiscal plan includes a reserve of $1.2 billion each year over the medium term, and $1.5 billion each year over the extended outlook. The reserve is larger for the extended outlook period to reflect the uncertain nature of longer-term revenue and expense projections.

The fiscal plan also includes contingency funds (both operating and capital) totalling $3.4 billion in 2009–10 to help mitigate expense risks that may otherwise have a negative impact on results. The level of the 2009–10 contingency funds — set at about three per cent of total expense — reflects the unusual degree of economic and fiscal uncertainty in 2009–10.

RISKS AND THE FISCAL OUTLOOK

The fiscal outlook for each fiscal year is subject to change and reflects a continuum of information that begins with the Budget and ends with the Public Accounts. As new information affecting the economic, revenue and expense assumptions arises throughout the year, the fiscal forecast changes. For example, the 2008 Budget forecasted real GDP growth of 1.1 per cent in 2008. However, since then, 2008 real GDP has declined by 0.4 per cent, or 1.5 percentage points, compared to the 2008 Budget forecast. Given the current global economic uncertainty, it is important to note that the forecast presented in economic and fiscal updates, including this Budget, represents a point in time along this continuum and is based on the best available information at that time.

The revenue forecast includes assumptions about tax-return filings and growth of key factors such as wages, salaries, disposable income and housing prices. It also takes into account current federal–provincial funding arrangements and funding formulas for major health and social transfers. Developing revenue estimates also requires highly detailed economic forecasts, which include assumptions about factors such as the U.S. economic outlook, Canadian dollar exchange rate, oil prices and economic growth in the rest of Canada.

Variances from revenue estimates arise due to inherent uncertainties involved in predicting the future and lags in information flows. A variance in any of the key factors underlying the revenue assumptions could result in a change to the revenue forecast, as was observed in 2008–09 when unforeseen changes in the economic outlook contributed to a $3.5 billion decline in revenue.

The total expense forecast includes assumptions about program growth and demands, as well as additional planned spending in key priority areas. As many ministries' expense forecasts are based on assumptions about utilization, enrolment and caseloads for government programs and services, a change in these factors could affect total expense — causing changes in the Province's overall fiscal performance.

It is due to this type of uncertainty that the fiscal plan includes a revenue forecast based on prudent economic assumptions, contingency funds and a reserve. These forms of prudence exist to help offset any negative impact to the fiscal plan that could result from even a small variance in the revenue and expense forecast.

As the factors and assumptions comprising the revenue and expense forecasts interact and shift, fiscal and economic updates at various times of the fiscal cycle may include adjustments to the revenue and expense forecasts to reflect these changes. Updates such as those provided in this Budget are based on the best available information, and provide transparency around the changes to the fiscal forecast and information on key risks and sensitivities that may affect the fiscal plan.

Section G: Accountability, Transparency and Financial Management

The government is committed to enhancing accountability, strengthening transparency and improving financial management. The *Fiscal Transparency and Accountability Act, 2004* sets standards for how the Province presents financial reports to Ontarians. With this Budget, the Province is introducing a number of improvements to further strengthen accountability and transparency in its financial reporting, and enhance its financial management.

Investments in Tangible Capital Assets

In response to changes in Public Sector Accounting Board (PSAB) standards, the government began accounting for investments in land, buildings and transportation infrastructure as tangible capital assets in 2003. Since the adoption of this accounting treatment, investments in depreciable assets, including provincial buildings, roads and bridges have been amortized to expenses over their estimated useful lives instead of being expensed in the years they were purchased or constructed. Starting in the 2009–10 fiscal year, this policy is being extended to building leasehold improvements, assets acquired through capital leases and other tangible capital assets owned by the Province, including vehicles, aircraft, and information technology infrastructure and systems.

In addition, starting with the Province's 2009–10 fiscal year, the government is modifying its existing tangible capital asset accounting policy to include interest costs incurred during construction as part of the cost of constructing assets. With the adoption of this accounting treatment, interest costs incurred during construction will be amortized over the estimated useful lives of tangible capital assets along with other costs of construction rather than being expensed during the period of construction.

Municipalities and school boards in Ontario will also be adopting tangible capital asset accounting consistent with a recent change in PSAB standards for local governments. The government has been working closely with its municipal and school board partners on the transition to these new accounting standards. With the introduction of these changes, the government is proposing amendments to the *Education Act*, *Municipal Act, 2001* and *City of Toronto Act, 2006* to improve consistency in public-sector financial reporting and better align financial accountability structures. For municipalities, changes to legislation will be proposed to meet new PSAB standards while maintaining current financial accountability provisions. For school boards, changes will be proposed in the *Education Act* to modernize the financial accountability framework and improve consistency with provincial financial reporting.

Interjurisdictional Joint Working Group

It is important that government accounting standards support fiscal accountability, transparency and sound public policy decision-making. To better align the development of accounting standards with these public policy objectives, a Joint Working Group of representatives from Ontario, the federal government and other provinces has been meeting with PSAB representatives for over a year. The Joint Working Group reviewed:

- the consistency of PSAB's conceptual accounting framework with sound public policy decision-making, fiscal accountability and public understanding of government financial information;
- the nature of PSAB's governance structure and its standard-setting process; and
- changes in government accounting standards proposed by PSAB for financial instruments, government transfers, government business enterprises and broader public sector organizations.

Following this extensive collaboration, the Joint Working Group provided its recommendations to PSAB and the Accounting Standards Oversight Council (AcSOC) in January 2009. The PSAB and AcSOC are currently reviewing the Joint Working Group's recommendations.

Consolidation of Hospitals, School Boards and Colleges

The government provides over $30 billion annually to Ontario hospitals, school boards and colleges. To comply with PSAB standards, the government began including the financial results of these organizations on a one-line basis with those of the Province, starting with the 2006 Budget and 2005–06 annual financial statements.

In January 2009, PSAB extended the transition period for the consolidation of these organizations on a line-by-line basis by one year. In the government's view, a one-line consolidation format for these sectors best represents the bottom-line fiscal accountability of these organizations to the Province for managing these public funds. It provides a more easily understood presentation of financial results and better respects the fiscal accountability of school boards, hospital boards and boards of governors of colleges to the communities they serve.

In its recent report, the interjurisdictional Joint Working Group recommended that PSAB consider amending its existing accounting standard to permit a one-line net expense presentation for inclusion of the financial results of these major public-sector organizations in government financial statements. The PSAB is currently reviewing the Joint Working Group's recommendations.

Financial Management Improvements

As part of continuing efforts to improve the financial management of provincial accounts receivable, the government is proposing an amendment to the *Financial Administration Act* to ensure the recognition of uncollectible accounts is consistent with the Province's accounting policies as set out in the Public Accounts and to clarify that any future obligations to a debtor continue to be eligible for offsets against any outstanding uncollectible amounts.

To effect the change in accounting policy to include interest during construction as part of the cost of constructing assets, the government is proposing to further amend the *Financial Administration Act* to add a new class of non-cash expenses that requires statutory authority.

To strengthen financial management of fees and other charges, the government is proposing to amend the *Treasury Board Act, 1991* to clarify that Treasury Board of Cabinet may require Ministers to seek Board approval before exercising their powers related to fees or other charges.

The government will also introduce amendments to the *Interim Appropriation for 2009–2010 Act, 2008* and introduce the *Supplementary Interim Appropriation for 2009–2010 Act, 2009,* proposing the authorization of government spending for 2009–10 before the enactment of supply for 2009–10.

In addition, to strengthen rights of access to financial information from organizations included in the Public Accounts of the Province, the government is proposing to amend the *Ministry of Treasury and Economics Act.*

Section H: Details of Ontario's Finances

This section provides information on the Province's historical performance, key fiscal indicators, as well as details on Ontario's fiscal plan and outlook.

Medium-Term Fiscal Plan and Outlook **Table 23**
($ Billions)

	Interim 2008-09	Plan 2009-10	Outlook 2010-11	Outlook 2011-12
Revenue	93.4	96.0	103.6	104.4
Expense				
Programs	88.5	99.6	104.7	101.9
Interest on Debt[1]	8.9	9.3	9.9	11.1
Total Expense	97.3	108.9	114.6	112.9
Reserve	–	1.2	1.2	1.2
Surplus/(Deficit)	(3.9)	(14.1)	(12.2)	(9.7)
Net Debt[2]	149.4	169.8	189.5	205.4
Accumulated Deficit[2]	109.5	123.6	135.8	145.5

1 Interest on debt expense is net of interest capitalized during construction of tangible capital assets of $0.1 billion in 2009–10, $0.3 billion in 2010–11, and $0.5 billion in 2011–12.

2 Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets; the change in net assets of hospitals, school boards and colleges; and the change in the fair value of the Ontario Nuclear Funds. Accumulated Deficit is calculated as the difference between liabilities and total assets, including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the surplus/deficit plus the change in the fair value of the Ontario Nuclear Funds.

Note: Numbers may not add due to rounding.

Revenue
($ Millions)

Table 24

	2005–06	2006–07	Actual 2007–08	Interim 2008–09	Plan 2009–10
Taxation Revenue					
Personal Income Tax	21,041	23,655	24,538	25,574	25,170
Retail Sales Tax	15,554	16,228	16,976	17,453	17,600
Corporations Tax	9,984	10,845	12,990	8,603	8,518
Employer Health Tax	4,197	4,371	4,605	4,664	4,687
Ontario Health Premium	2,350	2,589	2,713	2,799	2,829
Gasoline Tax	2,281	2,310	2,360	2,353	2,367
Land Transfer Tax	1,159	1,197	1,363	1,051	895
Tobacco Tax	1,379	1,236	1,127	1,041	995
Fuel Tax	729	723	733	716	732
Electricity Payments-In-Lieu of Taxes	951	757	546	816	685
Other Taxes	292	399	481	373	378
	59,917	64,310	68,432	65,443	64,856
Government of Canada					
Canada Health Transfer	7,148	7,702	8,487	8,881	9,722
Canada Social Transfer	3,324	3,478	3,778	4,081	4,213
Equalization	–	–	–	–	347
Infrastructure Programs	285	191	207	168	1,746
Labour Market Programs	127	289	664	863	1,193
Social Housing	520	532	525	514	509
Wait Times Reduction Fund	243	467	468	235	97
Other Federal Payments	1,604	1,377	2,468	1,823	1,419
	13,251	14,036	16,597	16,565	19,246
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	2,027	1,945	1,857	1,895	1,966
Liquor Control Board of Ontario	1,197	1,307	1,374	1,410	1,326
Ontario Power Generation Inc. and Hydro One Inc.	1,107	947	1,214	615	983
Other Government Enterprises	(23)	(3)	(8)	(11)	(8)
	4,308	4,196	4,437	3,909	4,267
Other Non-Tax Revenue					
Reimbursements	1,295	1,415	1,464	1,365	1,297
Vehicle and Driver Registration Fees	763	970	1,051	1,044	1,065
Electricity Debt Retirement Charge	1,021	991	982	968	955
Power Sales	779	863	929	936	964
Sales and Rentals	465	1,108	553	609	619
Other Fees and Licences	550	624	668	656	815
Liquor Licence Revenue	516	467	475	458	457
Net Reduction of Power Purchase Contract Liability	396	412	398	373	348
Royalties	191	215	193	197	211
Miscellaneous Other Non-Tax Revenue	773	790	943	904	880
	6,749	7,855	7,656	7,510	7,611
Total Revenue	84,225	90,397	97,122	93,427	95,980

Total Expense Table 25
($ Millions)

Ministry Expense	2005–06	2006–07	Actual 2007–08	Interim 2008–09	Plan 2009–10
Aboriginal Affairs[1]	50	25	33	55.1	71.1
Agriculture, Food and Rural Affairs[1]	861	796	731	899.9	1,116.1
Attorney General	1,282	1,343	1,648	1,681.3	1,650.8
Board of Internal Economy	150	163	257	198.3	173.3
Children and Youth Services	3,284	3,277	3,733	4,102.3	4,406.5
Citizenship and Immigration	89	112	90	88.5	106.7
Community and Social Services	6,714	7,178	7,544	8,003.1	8,327.3
Community Safety and Correctional Services	1,728	1,856	1,982	2,146.6	2,260.0
Culture[1]	478	414	350	363.9	476.7
Economic Development[1]	136	151	242	195.6	326.8
Education[1]	440	423	446	445.5	492.9
School Boards' Net Expense	10,886	11,290	11,830	12,839.9	13,693.5
Energy and Infrastructure[1]	325	525	401	343.1	764.7
Environment[1]	274	314	349	365.6	367.2
Executive Offices	31	37	36	35.6	35.9
Finance[1]	578	564	455	571.4	669.6
Francophone Affairs, Office of	4	4	5	5.5	5.1
Government Services[1]	749	978	950	1,093.1	1,313.4
Health and Long-Term Care	17,797	19,119	20,373	21,776.0	22,955.4
Hospitals' Net Expense	14,816	16,145	17,381	18,567.4	19,214.4
Health Promotion	290	391	364	379.0	395.9
International Trade and Investment	40	48	55	67.2	72.2
Labour	141	146	170	167.0	174.1
Municipal Affairs and Housing[1]	926	843	744	751.7	703.9
Natural Resources	626	731	794	788.6	788.2
Northern Development and Mines	332	314	341	349.9	378.4
Research and Innovation[1]	332	316	301	313.5	482.7
Revenue	442	563	554	593.1	821.2
Small Business and Consumer Services	39	39	46	47.1	48.8
Tourism	210	204	234	183.4	216.4
Training, Colleges and Universities[1]	3,509	4,115	4,384	4,657.6	4,736.7
Colleges' Net Expense[1]	1,185	1,273	1,403	1,445.7	1,549.5
Transportation[1]	1,795	1,787	1,892	2,032.1	2,112.6
Interest on Debt[2]	9,019	8,831	8,914	8,854.0	9,301.0
Other Expense[1]	4,369	3,813	7,490	2,909.6	9,821.1
Year-End Savings[3]	–	–	–	–	(1,150.0)
Total Expense	83,927	88,128	96,522	97,317.1	108,880.0

1 Details on other ministry expense can be found in Table 26, Other Expense.

2 Interest on debt is net of interest capitalized during construction of tangible capital assets of $78 million in 2009–10.

3 As in past years, the Year-End Savings provision reflects anticipated underspending that has historically arisen at year-end due to factors such as program efficiencies, and changes in project startups and implementation plans.

Note: Numbers may not add due to rounding.

Other Expense
($ Millions) **Table 26**

Ministry Expense	2005–06	2006–07	Actual 2007–08	Interim 2008–09	Plan 2009–10
Aboriginal Affairs					
One-Time Expense for the First Nations Gaming Agreement	–	–	201	–	–
Agriculture, Food and Rural Affairs					
One-Time Extraordinary Assistance	125	259	274	–	–
Time-Limited Assistance	157	19	76	15.7	164.0
Culture					
One-Time Investments	–	–	57	–	–
Economic Development					
One-Time Investments	–	–	152	–	–
Education					
Teachers' Pension Plan[1]	295	345	342	49.0	259.0
Energy and Infrastructure					
Capital Contingency Fund	–	–	–	–	200.0
One-Time Investments in Municipal Infrastructure	–	140	450	–	–
Time-Limited Investments in Infrastructure	–	–	–	–	2,647.3
Environment					
One-Time Investments	–	–	–	68.5	–
Finance					
Investing in Ontario Act Investments	–	–	1,149	–	–
Ontario Municipal Partnership Fund	714	758	907	905.4	782.9
Operating Contingency Fund	–	–	–	250.0	3,210.0
Power Purchases	803	863	929	936.0	964.1
Government Services					
Pension and Other Employee Future Benefits	729	557	531	685.0	932.0
Municipal Affairs and Housing					
One-Time Investment in Municipal Social Housing Stock	–	–	100	–	352.2
Research and Innovation					
One-Time Investments	–	–	87	–	20.0
Training, Colleges and Universities					
Time-Limited Investments – Training, Colleges and Universities	–	–	699	–	212.4
Time-Limited Investments – Colleges' Net Expense	–	–	–	–	77.3
Transportation					
One-Time Transit and Infrastructure Investments	1,546	872	1,536	–	–
Total Other Expense	**4,369**	**3,813**	**7,490**	**2,909.6**	**9,821.1**

[1] Numbers reflect PSAB pension expense. Ontario's matching contributions to the plan grow from $740 million in 2005–06 to $1,070 million in 2008–09 and $1,249 million in 2009–10.

Note: Numbers may not add due to rounding.

Infrastructure Expenditures **Table 27**
($ Millions)

Sector	Total Infrastructure Expenditures 2008–09 Interim	2009–10 Plan Investment in Capital Assets	2009–10 Plan Transfers and Other Expenditures on Infrastructure[1]	2009–10 Plan Total Infrastructure Expenditures	2010–11 Plan Total Infrastructure Expenditures
Transportation					
Transit	1,204.0	1,316.0	371.1	1,687.1	1,505.9
Highway Construction	1,460.7	1,718.3	0.0	1,718.3	2,034.2
Windsor Gateway	157.3	186.9	60.2	247.1	715.0
Other Transportation[2]	375.8	524.5	51.5	576.0	558.9
Health					
Hospitals	1,753.2	2,542.8	0.0	2,542.8	3,438.0
Other Health	325.5	468.2	166.4	634.6	474.3
Education					
School Boards	1,413.6	1,473.6	30.0	1,503.6	1,608.1
Colleges	276.6	239.9	0.0	239.9	248.1
Universities	50.0	0.0	105.6	105.6	72.7
Water/Environment	285.4	37.1	221.9	259.0	274.2
Municipal and Local Infrastructure[3]	267.9	19.5	399.0	418.5	431.5
Justice	393.9	318.6	37.1	355.6	819.3
Other	572.5	1,066.1	810.9	1,877.0	2,350.4
New Short-Term Stimulus Investments	0.0	702.0	2,728.6	3,430.6	3,449.8
Total	8,536.3	10,613.5	4,982.2	15,595.7	17,980.3
Less: Other Partner Funding[4]	706.5	501.0	0.0	501.0	526.0
Total Excluding Partner Funding	7,829.8	10,112.5	4,982.2	15,094.7	17,454.3
Less: Flow-Throughs[5]	215.4	613.3	1,776.7	2,390.0	2,693.2
Total Provincial Expenditure	7,614.4	9,499.2	3,205.5	12,704.7	14,761.1

1 Mainly consists of transfers for capital purposes to municipalities and universities, and expenditures for capital repairs. These expenditures are included in the Province's total expense in Table 25.
2 Other transportation includes planning activities, property acquisition, and other infrastructure programs (e.g., municipal/local roads/remote airports).
3 Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.
4 Third-party contributions to capital investment in the consolidated sectors (schools, colleges and hospitals).
5 Mostly federal government transfers for capital investments.
Note: Numbers may not add due to rounding.

Ten-Year Review of Selected Financial and Economic Statistics
($ Millions)

	2000–01	2001–02	2002–03[1]
Financial Transactions			
Revenue	66,294	66,534	68,891
Expense			
Programs	53,519	55,822	59,080
Interest on Debt	10,873	10,337	9,694
Total Expense	64,392	66,159	68,774
Reserve	–	–	–
Surplus/(Deficit)	1,902	375	117
Net Debt[3,4]	132,496	132,121	132,647
Accumulated Deficit[5]	132,496	132,121	118,705
Gross Domestic Product (GDP) at Market Prices	440,759	453,701	477,763
Personal Income	347,653	361,187	369,420
Population — July (000s)	11,683	11,897	12,091
Net Debt per Capita (dollars)	11,341	11,106	10,971
Personal Income per Capita (dollars)	29,756	30,360	30,553
Total Expense as a per cent of GDP	14.6	14.6	14.4
Interest on Debt as a per cent of Revenue	16.4	15.5	14.1
Net Debt as a per cent of GDP	30.1	29.1	27.8
Accumulated Deficit as a per cent of GDP	30.1	29.1	24.8

1 Starting in 2002–03, investments in major tangible capital assets owned by the Province (land, buildings, and transportation infrastructure) have been capitalized and amortized to expense over their useful lives. Starting in 2009–10, investments in minor tangible capital assets owned by the Province (information technology infrastructure and systems, vehicles and marine fleet and aircraft) will also be capitalized and amortized to expense. All capital assets owned by consolidated organizations are being accounted for in a similar manner.

2 Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation. Total expense prior to 2005–06 has not been restated to reflect expanded reporting.

3 Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets; the change in net assets of hospitals, school boards and colleges; and, effective April 1, 2007, the change in the fair value of the Ontario Nuclear Funds.

4 Net Debt is restated in 2003–04, 2004–05 and 2005–06 to reflect the value of hydro corridor lands transferred to the Province from Hydro One Inc.

5 Accumulated Deficit is calculated as the difference between liabilities and total assets, including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the surplus/deficit plus, effective April 1, 2007, the change in the fair value of the Ontario Nuclear Funds. For fiscal 2005–06, the change in the Accumulated Deficit includes the opening combined net assets of hospitals, school boards and colleges that were recognized upon consolidation of these Broader Public Sector entities. For fiscal 2006–07, the change in the Accumulated Deficit includes an adjustment to the unfunded liability of the Ontario Electricity Financial Corporation made at the beginning of the year. For fiscal 2007–08, a $1.2 billion decrease in the Accumulated Deficit is made up of $0.6 billion in the Province's operating surplus, with the remainder resulting from a change in accounting policy. Under this change, Ontario Nuclear Funds Agreement funds are reported at fair value on Ontario Power Generation Inc. books and, upon consolidation, on the Province's consolidated financial statements.

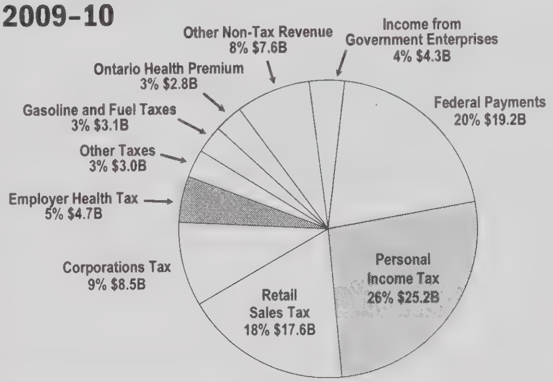
Sources: Ontario Ministry of Finance and Statistics Canada.

Table 28

2003–04	2004–05	2005–06[2]	2006–07	Actual 2007–08	Interim 2008–09	Plan 2009–10[1]
68,400	77,841	84,225	90,397	97,122	93,427	95,980
64,279	70,028	74,908	79,297	87,608	88,463	99,579
9,604	9,368	9,019	8,831	8,914	8,854	9,301
73,883	79,396	83,927	88,128	96,522	97,317	108,880
–	–	–	–	–	–	1,200
(5,483)	(1,555)	298	2,269	600	(3,890)	(14,100)
138,816	140,921	141,928	141,100	142,418	149,357	169,830
124,188	125,743	109,155	106,776	105,617	109,507	123,607
493,081	516,106	536,844	559,778	584,957	594,962	580,703
381,127	400,994	419,078	441,338	464,257	483,344	486,138
12,242	12,391	12,528	12,665	12,794	12,929	13,051
11,339	11,373	11,328	11,141	11,132	11,552	13,013
31,132	32,363	33,450	34,846	36,288	37,384	37,250
15.0	15.4	15.6	15.7	16.5	16.4	18.7
14.0	12.0	10.7	9.8	9.2	9.5	9.7
28.2	27.3	26.4	25.2	24.3	25.1	29.2
25.2	24.4	20.3	19.1	18.1	18.4	21.3

Composition of Revenue 2009–10

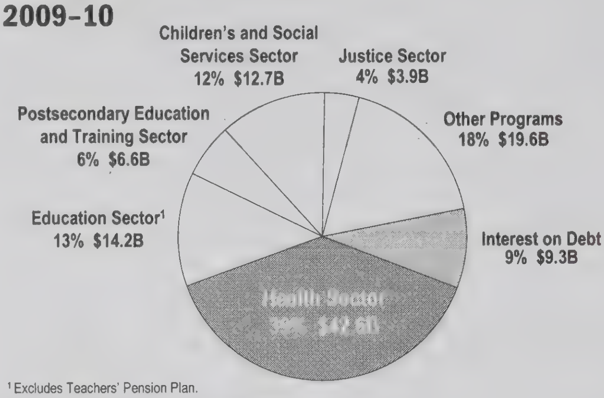
Chart 15



Note: Numbers may not add due to rounding.

Composition of Total Expense 2009–10

Chart 16

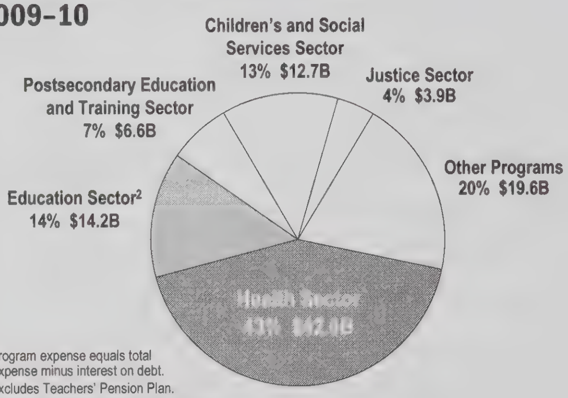


[1] Excludes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Composition of Program Expense[1] 2009–10

Chart 17



[1] Program expense equals total expense minus interest on debt.
[2] Excludes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities

Provincial proceeds from gaming activities continue to support Provincial priorities, including the operation and support of hospitals, charities, amateur sports, communities and the agricultural sector.

Support for Health Care, Charities, and Problem Gambling and Related Programs ($ Millions) — Table 29

	Interim 2008–09	Plan 2009–10
Revenue from Lotteries, Charity Casinos and Slot Machines at Racetracks:		
Operation of Hospitals	1,567	1,634
Ontario Trillium Foundation	110	120
Problem Gambling and Related Programs	39	40
Ontario Amateur Sports	10	10
Revenue from Commercial Casinos:		
General Government Priorities	169	162
Total	1,895	1,966

Sources: Ontario Ministries of Energy and Infrastructure, and Finance.

Revenue from Lotteries, Charity Casinos and Slot Machines at Racetracks

The *Ontario Lottery and Gaming Corporation Act, 1999* requires that net Provincial revenue generated from lotteries, charity casinos and racetrack slot machines support services such as the operation of hospitals, problem gambling and related programs, amateur sports, and funding for charitable and not-for-profit organizations through the Ontario Trillium Foundation.

An estimated $1,634 million in net revenue from lotteries, charity casinos and slot machines at racetracks will be applied to support the operation of hospitals in 2009–10.

In 2009–10, the Ontario Trillium Foundation will receive $120 million to help build strong and healthy communities through contributions to charitable and not-for-profit organizations in the arts and culture, sports and recreation, human and social services, and environment sectors.

Two per cent of gross slot-machine revenue, estimated at $40 million for 2009–10, is allocated for problem gambling prevention, treatment and research programs.

The Quest for Gold lottery will provide an estimated $10 million in 2009–10 for direct financial support to Ontario's high-performance amateur athletes.

Benefits from Commercial Casinos

In 2009–10, net Provincial revenue from commercial casinos, estimated at $162 million, will be used to support general government priorities, including health care, education and public infrastructure. In addition to the support for general government priorities, commercial casino operations support approximately 11,600 direct jobs in Ontario and provide vital tourism and economic development attractions for their respective communities.

Other Beneficiaries of Charity Casinos and Slot Machines at Racetracks

Approximately 20 per cent of gross revenue from slot machines at racetracks is used to promote the economic growth of the horse-racing industry. Since 1998, this initiative has provided over $2.6 billion to the horse-racing industry in Ontario, a key component of the Province's agricultural sector. For 2009–10, additional support is estimated at $349 million.

Support for Agricultural Sector and Municipalities ($ Millions) — **Table 30**

	Interim 2008–09	Plan 2009–10
Agricultural Sector[1]	345	349
Municipalities	79	81
Total	424	430

1 The agricultural sector's share of racetrack slot-machine revenue and municipalities' share of slot-machine revenue from charity casinos or racetrack slot facilities is received directly from the Ontario Lottery and Gaming Corporation.

Source: Ontario Ministry of Energy and Infrastructure.

A portion of gross slot-machine revenue, estimated at $81 million in 2009–10, will be provided to municipalities that host charity casinos and slot operations at racetracks. These revenues will help offset local infrastructure and service costs.

CHAPTER III

Reforming Ontario's Tax and Pension Systems

INTRODUCTION

The McGuinty government is proposing a comprehensive package of changes to Ontario's tax and pension systems. These proposed changes, if approved by the legislature, would strengthen the foundation for job creation and economic growth and improve fairness and transparency.

The Budget proposes to:

- fundamentally reform Ontario's tax system to help position Ontario for the next generation of economic growth and prosperity by:
    - implementing a single sales tax on July 1, 2010 to further strengthen Ontario's economic growth and tax competitiveness;
    - providing $10.6 billion in tax relief to people over three years to help consumers through the transition to a single sales tax and to provide ongoing tax reductions through the Personal Income Tax (PIT) system; and
    - providing $4.5 billion in business tax relief over three years that includes reducing the Corporate Income Tax (CIT) rate to 10 per cent over three years, cutting the small business CIT rate and exempting more small and medium-sized businesses from the Corporate Minimum Tax (CMT);
- provide targeted tax incentives to support innovation, the entertainment and creative cluster and skills training;
- move forward on reforming Ontario's pension system by:
    - implementing measures to provide temporary solvency funding relief for defined benefit pension plans while helping to ensure greater transparency and security of pension benefits; and
    - laying out a framework for strengthening Ontario's pension system, including measures to modernize pension regulations.

TAX REFORM MEASURES

Sales Tax Reform

Structure and Tax Rate

It is proposed that, starting July 1, 2010, Ontario's Retail Sales Tax (RST) would be converted to a value-added tax structure and combined with the federal Goods and Services Tax (GST) to create a federally administered single sales tax. The single sales tax would have a combined tax rate of 13 per cent. The provincial portion would be eight per cent — the same as the general RST rate — and the federal portion would be five per cent.

Value-Added Tax Structure

The current RST applies to many purchases made by businesses in the course of providing goods and services for sale. As a result, the tax can become embedded in the price of the finished goods and services throughout the supply chain. This hidden RST is passed on to consumers. The new single sales tax would use a value-added tax structure, meaning that most businesses would be reimbursed for the tax they pay on most of their inputs.

> **VALUE-ADDED TAXATION**
>
> In general, a value-added tax applies to all commercial activities related to the sale of goods and services. Tax is paid on the supply of goods and services throughout the supply chain, but the tax paid by business is generally reimbursed through input tax credits.

Studies show that most of the cost savings to business from removing embedded sales taxes are passed on to consumers through lower prices. A recent C.D. Howe report that examined the effects of GST harmonization in the Atlantic provinces found that the benefit to consumers can occur quickly, with the majority of the savings passed through to consumers in the first year.[1]

Exported goods would also be generally free of embedded sales tax, making Ontario exports more competitive.

Input Tax Credits

Businesses selling taxable or zero-rated goods and services would be able to claim input tax credits on their purchases, as under the federal GST, with limited exceptions. These credits would reimburse businesses for the tax they pay in the course of commercial activities. This approach would reduce business costs, most noticeably in areas that are taxable under the current RST system, and would support business investment in Ontario.

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[1] Michael Smart, "Lessons in Harmony: What Experience in the Atlantic Provinces Shows About the Benefits of a Harmonized Sales Tax," *C.D. Howe Institute Commentary,* July 2007.

In general, businesses selling tax-exempt goods or services would be unable to claim input tax credits, as under the federal GST rules. For example, most financial services are GST exempt and therefore input tax credits could not be claimed in respect of those services.

Tax Base and Administration

To simplify administration, the single sales tax would generally use the same rules and tax base as the federal GST. This would significantly reduce the administrative burden on businesses that currently must comply with two separate and sometimes conflicting sets of tax rules. Ontario businesses would save more than $500 million a year in compliance costs. The unified tax base would also facilitate the administration of the single sales tax by the Canada Revenue Agency, improving cost efficiencies in government.

Under the RST system, Ontario compensates vendors for collecting and remitting the tax. With the elimination of the RST, vendor compensation would end as part of the transition to the single sales tax. Vendor compensation would continue to apply for RST returns filed up to and including those filed for the period ending March 31, 2010 under the existing RST system.

Small Business Transition Support

Although most RST vendors are also registrants under the federal GST, businesses would have to make some changes to their point-of-sale and accounting systems in order to collect the single sales tax. Ontario would provide up to a total of $400 million in one-time transition support to small business in the form of a small business transition credit.

Small Business Transition Credit — **Table 1**

Total Taxable Revenues in First Full Fiscal Quarter Commencing After June 30, 2010	Amount of Transition Credit
Up to and Including $15,000	$300
Over $15,000 and Up to and Including $50,000	2% of Taxable Revenue for that Quarter
Over $50,000 and Up to and Including $500,000	$1,000

Most businesses, other than financial institutions, with less than $2 million in annual revenue from taxable sales, would be eligible for a transition credit of up to $1,000.

Small Supplier Threshold

Under the single sales tax, Ontario would parallel the GST small supplier threshold where businesses with sales under the threshold would not be required to register and collect the single sales tax. This would reduce administrative burden and complexity for small businesses. Similar to the GST, small suppliers (with total taxable revenues of $30,000 or less in the prior year or $50,000 or less in the case of a public service body) that choose not to register would not be required to file a single sales tax return and would not be eligible to claim input tax credits. If a small supplier chooses to register, it would be eligible to claim input tax credits related to its taxable supplies when it files its single sales tax return.

Point-of-Sale Exemptions

To provide targeted relief while maintaining the single administration of sales taxes in Ontario, point-of-sale rebates would be introduced for the provincial portion of the tax for the following items: books, children's clothing and footwear, children's car seats and car booster seats, diapers, and feminine hygiene products. This treatment would also preserve retailers' ability to claim input tax credits.

POINT-OF-SALE EXEMPTIONS

Point-of-sale rebates would provide exemptions for books, children's clothing and footwear, children's car seats and car booster seats, diapers and feminine hygiene products.

New Housing Rebate

Currently, the RST applies to building supplies used in the construction of new homes. The single sales tax would remove this embedded tax. Based on a recent Canada Mortgage and Housing Corporation study, this embedded sales tax ranges from about two per cent to three per cent, on average, on the final sale of a new house in Ontario.

HOUSING REBATE

Buyers of new housing would be eligible for new housing rebates. The annual benefit of the new housing rebate is estimated to be $1.1 billion.

To ensure that, on average, new homes under $400,000 would not be subject to an additional tax burden, the government is proposing a new housing rebate. Homebuyers would be able to claim a rebate of part of the provincial portion of the tax for new homes priced up to $500,000. The rebate for new primary residences under $400,000 would be 75 per cent of the provincial portion of the tax (or six per cent of the purchase price), with the rebate amount reduced for homes priced between $400,000 and $500,000.

Resale homes would not be subject to the single sales tax.

Keeping Public Service Bodies Fiscally Neutral

Ontario's public service bodies (i.e., municipalities, hospitals, universities, colleges, school boards, charities and qualifying non-profit organizations) would be able to claim rebates for the provincial portion of the single sales tax so that the net effect of the tax on each sector would be fiscally neutral relative to the amount of RST currently paid by these sectors. As with the GST, the rebates would be a percentage of tax paid.

REBATES FOR PUBLIC SERVICE BODIES	SECTOR REBATE*
Municipalities	78%
Universities and Colleges	78%
School Boards	93%
Hospitals	87%
Charities and Qualifying Non-Profit Organizations	82%

* Rebate of provincial portion of tax paid based on federal GST public service body definitions.

Temporarily Restricted Input Tax Credits

Similar to the restricted input tax credit (ITC) system in Quebec, large businesses (those with annual taxable sales in excess of $10 million) and financial institutions would be unable to claim input tax credits in certain areas. These restrictions would be temporary, during the initial implementation of the single sales tax, and would apply only to the provincial portion of the tax. After the first five years of single sales tax implementation, full input tax credits on their taxable supplies would be phased in over a three-year period.

TEMPORARY ITC RESTRICTIONS FOR LARGE BUSINESSES:

- Energy, except where purchased by farms or used to produce goods for sale.
- Telecommunication services other than internet access or toll-free numbers.
- Road vehicles weighing less than 3,000 kilograms (and parts and certain services) and fuel to power those vehicles.
- Food, beverages and entertainment.

Supporting Tourism

The RST rate on transient accommodation, such as hotel rooms, is currently five per cent. Under the single sales tax, the provincial portion would increase to eight per cent.

Approximately $40 million of annual net revenue associated with the difference in rates would be allocated to destination marketing in Ontario tourism regions, once these are established.

Private Transfers of Motor Vehicles

Similar to the tax treatment in other provinces, Ontario would retain a sales tax on private transfers of used motor vehicles. This would help to ensure a level playing field between used vehicles sold through dealerships and private sales.

Maintaining Current Tax Levels on Certain Types of Insurance

Retail Sales Tax currently applies to premiums for some types of insurance such as group insurance. Ontario would retain a tax on insurance at eight per cent after the transition to the single sales tax, on the same types of insurance currently taxed under the RST. Automobile insurance premiums would continue to be exempt from sales tax.

Maintaining Current Levels of Revenue from Alcohol Sales

The RST is currently collected on alcoholic beverages sold through licensed establishments at the rate of 10 per cent and on alcoholic beverages sold through retail stores at the rate of 12 per cent.

Under the single sales tax, the provincial rate on these products would fall to eight per cent.

To maintain social responsibility and existing revenue, while introducing the new single sales tax, the government proposes to make adjustments to current alcohol fees, levies and charges.

The government also proposes to introduce legislation to replace various alcohol and other fees, levies and charges with taxes to enhance their operational structure and legislative clarity.

Additional Information

Additional information on technical design issues and transitional rules will be released in the coming months to help taxpayers and businesses prepare for the proposed changes. The government will also establish an implementation panel to assist with the transition to the single sales tax.

Stronger Economic Foundation

Canada and Ontario have entered into a Memorandum of Agreement for Ontario to join a framework agreement for federal collection and administration of a single value-added sales tax, effective July 1, 2010. Key provisions of the Memorandum of Agreement include $4.3 billion in cash transfer payments to Ontario and flexibility to provide certain consumer exemptions.

KEY FEATURES OF THE CANADA-ONTARIO MEMORANDUM OF AGREEMENT TO ENTER INTO A COMPREHENSIVE INTEGRATED TAX COORDINATION AGREEMENT

Subject to the appropriate legislative approvals, Canada and Ontario are agreeing to conclude a Comprehensive Integrated Tax Coordination Agreement that would:

- provide the policy framework for the application of a single, value-added sales tax in Ontario on July 1, 2010, administered by the Canada Revenue Agency and the Canada Border Services Agency;
- enable Ontario to:
  - provide consumer exemptions on a limited number of items such as children's clothing, feminine hygiene products and books;
  - phase in full tax relief for certain business input tax credits, for a transitional period of up to eight years;
  - establish provincial rebate rates and thresholds for new housing, public service bodies, including charities and qualifying non-profit organizations; and
- negotiate best possible arrangements for employment in the federal government of provincial employees affected by the change and to retain them in Ontario.

Canada would provide Ontario with $4.3 billion in cash transfer payments – $3 billion upon implementation of the combined sales tax on July 1, 2010 and $1.3 billion on July 1, 2011, to promote economic growth and support the transition to the new value-added tax.

Tax Breaks for People

Ontario Sales Tax Transition Benefit

As part of the sales tax reform proposed in this Budget, $4 billion in relief would be provided to Ontarians to help ensure a smooth transition to the new sales tax system.

Ontario Sales Tax Transition Benefit — **Table 2**

Payment Month	Single Individuals		Single Parents or Couples	
	Maximum Benefit	Phase-out Range	Maximum Benefit	Phase-out Range
June 2010	$100	$80,000–$82,000	$330	$160,000–$166,600
December 2010	$100	$80,000–$82,000	$335	$160,000–$166,700
June 2011	$100	$80,000–$82,000	$335	$160,000–$166,700
Total	$300		$1,000	

Benefits would be delivered to eligible Ontario tax filers aged 18 and over in each of June 2010, December 2010 and June 2011, totalling a maximum of $300 for single people and $1,000 for single parents and couples. Each maximum benefit would be reduced by five per cent of the recipients'

previous year's adjusted family net income over $80,000 for single individuals and over $160,000 for families. To qualify for the two benefits in 2010, a 2009 tax return would have to be filed, and a 2010 tax return would have to be filed for the June 2011 benefit. About 6.5 million individuals and families in Ontario would receive sales tax transition benefits.

A single person with no children and income of up to $80,000 would receive a benefit of $100 in each of June 2010, December 2010 and June 2011. The maximum benefit would be reduced by five per cent of income over $80,000, so a single person with income of $81,000, for example, would receive three benefits of $50 each. Single people with income over $82,000 would not receive a benefit.

A family with income of up to $160,000 would receive three benefits: $330 in June 2010, $335 in December 2010 and $335 in June 2011. The maximum benefits would be reduced by five per cent of family income over $160,000, so a family with income of $163,000, for example, would receive one benefit payment of $180 and two benefit payments of $185 each. Families with income over $166,700 ($166,600 for the June 2010 benefit) would not receive a benefit.

Sales Tax and Property Tax Relief

The government is proposing to increase the amount of ongoing sales tax and property tax relief for individuals and families with low to middle incomes by more than $1 billion a year. To better target this tax relief, the current combined sales and property tax credits would be replaced with two new tax credits: the Ontario Sales Tax Credit and the Ontario Property Tax Credit. These changes would improve transparency, fairness and timeliness.

Ontario Sales Tax Credit

This Budget proposes a new ongoing sales tax credit to help low- to middle-income individuals and families with the sales taxes they pay.

Under the current tax system, Ontario families have to wait until their income tax returns are processed to receive sales tax relief for sales tax paid in the previous year. To provide more timely assistance, the new sales tax credit would replace the current sales tax relief, provided through the Ontario Property and Sales Tax Credits, with advance payments. The sales tax credit would be refundable and paid quarterly starting in July 2010, when the new sales tax would come into effect.

The new sales tax credit would provide annual relief of up to $260 for each adult and each child. It would be reduced by four per cent of adjusted family net income over $20,000 for single people and over $25,000 for families.

For example, for the period from July 2010 to June 2011, a single individual with income of $20,000 or less would receive $260; a single parent with one child or a couple with $25,000 or less of income would receive $520; and a couple with two children and family income of $25,000 or less would receive $1,040.

Unlike the current sales and property tax credits, the maximum benefit and thresholds would be indexed for inflation to protect the value of this assistance for people with low to middle incomes.

About 2.9 million families and individuals would benefit from this measure.

Ontario Property Tax Credit

Property tax relief, currently provided through the Ontario Property and Sales Tax Credits, would be replaced by a new refundable Ontario Property Tax Credit for low- to middle-income homeowners and tenants that would provide an additional $270 million in property tax relief on an annual basis. The new credit would maintain existing benefit amounts while extending property tax relief to more Ontarians.

The credit would be based on occupancy cost — that is, property tax paid or 20 per cent of rent paid. A credit would be provided for occupancy cost of up to $250 for non-seniors or $625 for seniors, plus 10 per cent of occupancy cost. The credit would not exceed occupancy cost and would be subject to a maximum of $900 for non-seniors and $1,025 for seniors. It would then be reduced by two per cent of adjusted family net income in excess of $20,000 for single individuals and $25,000 for families.

For example, for the 2010 taxation year, a single individual with income of $20,000 or less and $500 in monthly rent would receive $370 in Ontario Property Tax Credit; a couple with $1,500 in property tax and $25,000 or less of family income would receive $400; and a senior couple with $4,000 in property tax and $25,000 or less in family income would receive $1,025.

The amounts and thresholds would be indexed for inflation to protect the value of this assistance for people with low to middle incomes.

About 2.3 million families and individuals would benefit from this measure.

Eligible senior homeowners will continue to receive additional assistance with their property taxes through the Ontario Senior Homeowners' Property Tax Grant.

Personal Income Tax Relief

The government is proposing to provide more than $1.1 billion annually in broadly based PIT relief by cutting the first tax rate by one percentage point, from 6.05 per cent to 5.05 per cent, effective January 1, 2010. As a result, Ontarians would benefit from the lowest provincial tax rate in Canada on the first $36,848 of taxable income, based on legislation currently in place in other provinces.

Ontario Personal Income Tax Rates (%) — **Table 3**

Taxable Income[1]	Current (2009)	Proposed (2010)
$0–$36,848	6.05	5.05
$36,848–$73,698	9.15	9.15
> $73,698	11.16	11.16

1 Taxable income thresholds would be adjusted in 2010 and future years to reflect Ontario inflation.

Ontario Tax Reduction

The Ontario Tax Reduction (OTR) reduces or eliminates PIT by up to $205 per tax filer and $379 per child or disabled or infirm dependant. By leaving these parameters in place while reducing the first tax rate, approximately 90,000 lower-income tax filers would no longer pay Ontario PIT, and approximately 725,000 additional taxpayers with lower incomes would have their Ontario PIT further reduced by the OTR.

Approximately 90,000 lower-income taxpayers would no longer pay Ontario PIT, and approximately 725,000 additional taxpayers with lower incomes would have their Ontario PIT further reduced by the OTR.

Other Changes

Various tax credits and provisions of the PIT system are based on the tax rate structure. As a consequence, these credits and provisions would be adjusted to reflect the proposed tax rate cut.

Ontario's two-tiered surtax adds to the progressivity of the PIT system. Currently, Ontario levies a 20 per cent surtax on basic Ontario tax over $4,257, and a 36 per cent surtax on basic Ontario tax over $5,370. This Budget proposes to adjust both surtax thresholds to maintain the progressivity of the income tax system by providing a more proportionate distribution of benefits to taxpayers as a result of the rate reduction.

Ontario Surtax Thresholds — Table 4

	Current (2009)	Proposed (2010)[1]
20% surtax	Basic Ontario Tax > $4,257	Basic Ontario Tax > $3,978
36% surtax	Basic Ontario Tax > $5,370	Basic Ontario Tax > $5,091

1 Thresholds would be adjusted in 2010 and future years to reflect Ontario inflation.

Most of Ontario's non-refundable tax credits are calculated by multiplying a credit amount (for example, the Basic Personal Amount) by 6.05 per cent, the first tax rate. With the proposed reduction in the first tax rate, the calculation of these non-refundable credits would be adjusted so that the credit amounts would be multiplied by 5.05 per cent. The tax credit rate on the first $200 of qualifying charitable donations would also be adjusted from 6.05 per cent to 5.05 per cent. Consequential adjustments would also be made to the calculation of Ontario minimum tax.

Ontario Dividend Tax Credit

The dividend tax credit provides PIT relief to Ontario investors and small business owners in recognition that dividends from Canadian corporations are distributed from earnings that have already been taxed at the corporate

Ontario Dividend Tax Credit Rates[1] (%) — Table 5

	Current 2009	Current 2010[2]	Proposed 2010[2]
Eligible Dividends (generally those paid by large corporations)	7.4	7.7	6.4
Other than Eligible Dividends	5.13	5.13	4.5

1 Rate applied to taxable amount of dividends.
2 Effective January 1, 2010.

level. As a result of the proposed reductions in CIT rates, Ontario would adjust the tax credit rates for dividends from taxable Canadian corporations. The changes to the dividend tax credit rates would maintain the integration of Ontario's CIT and PIT systems by reflecting the reduction in CIT rates.

Competitive Business Taxes

The Budget is proposing business tax relief that would lower business costs, enhance Ontario's competitiveness and support growing small businesses. These measures would support the government's five-point economic plan and build on the tax relief already in place, such as the elimination of Capital Tax in 2010.

Cutting CIT Rates

Ontario's current general CIT rate is 14 per cent of taxable income and the rate for manufacturing and processing (M&P), mining, logging, farming and fishing is 12 per cent. The small business CIT rate currently is 5.5 per cent.

The government is proposing to cut CIT rates, beginning July 1, 2010, as follows:

- the general CIT rate would be cut from 14 per cent to 12 per cent and further reduced to 10 per cent over three years;
- the CIT rate on M&P and resource sectors would be cut from 12 per cent to 10 per cent;
- the small business CIT rate would be cut from 5.5 per cent to 4.5 per cent; and
- the small business deduction surtax of 4.25 per cent would be eliminated.

The following table sets out the proposed CIT rate cut plan:

Ontario's Proposed Corporate Income Tax Rate Cut Plan **Table 6**

	Rates (Per Cent)			
Date	General	M&P[1]	Small Business[2]	Small Business Deduction Surtax[3]
Current	14	12	5.5	4.25
July 1, 2010	12	10	4.5	0
July 1, 2011	11.5	10	4.5	0
July 1, 2012	11	10	4.5	0
July 1, 2013	10	10	4.5	0

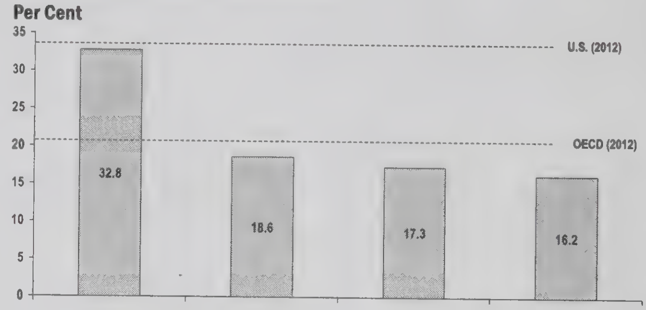
1 Income from manufacturing and processing, mining, logging, farming or fishing.
2 Applies to Canadian-controlled private corporations (CCPCs) on the first $500,000 of active business income.
3 Applies to CCPCs on taxable income between $500,000 and $1.5 million.
Note: The proposed tax rate reductions would be pro-rated for taxation years straddling the effective dates.

Lowering the CIT rate to 10 per cent would enhance Ontario's competitiveness and create a more efficient tax system that would encourage investment and increase productivity.

When the proposed Ontario CIT rate cuts are fully implemented, Ontario's combined federal–provincial CIT rate of 25 per cent would be lower than the current average Organisation for Economic Co-operation and Development (OECD) corporate tax rate of 26.7 per cent. Compared to the U.S. Great Lakes states — Ontario's key competitors for jobs and investment — Ontario's combined rate would be 15 percentage points lower than the average combined federal–state general CIT rate and more than 11 percentage points lower than the average combined manufacturing rate.

The proposed Ontario CIT rate reductions, together with the conversion of the RST into the single sales tax, would also cut Ontario's marginal effective tax rate (METR) on new capital investment in half, when those measures are fully phased in. This would make Ontario one of the most competitive jurisdictions in the industrialized world in terms of the taxation of new capital investment by corporations.

Cutting Ontario's Marginal Effective Tax Rate on New Investment* **Chart 1**



* Includes the Ontario CIT rate cuts and single sales tax proposed in this Budget, the phase-out of Ontario's capital tax by July 1, 2010, and the reduction in the general federal CIT rate to 15 per cent by 2012.
Sources: Ontario Ministry of Finance and Finance Canada.

The Ontario METR, which includes federal taxes, currently stands at 32.8 per cent. The sales tax and CIT measures proposed in this Budget, together with previously announced Ontario and federal tax cuts, would bring Ontario's marginal effective tax rate in 2010 down to 18.6 per cent — below the OECD average of 21.8 per cent. Following the completion of the proposed CIT rate cuts in 2013, the Ontario rate would fall further to 17.3 per cent. When the restrictions on input tax credits under the single sales tax are phased out in 2018, the rate would decline to 16.2 per cent.

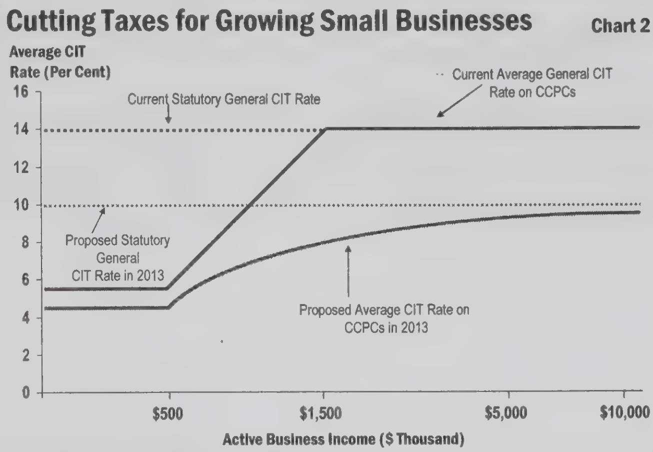
This would promote increased foreign and domestic investment and productivity in Ontario.

Eliminating the Small Business Deduction Surtax

The small business deduction provides a lower CIT rate of 5.5 per cent to Canadian-controlled private corporations (CCPCs) on the first $500,000 of active business income. Currently, the benefit of the small business deduction is gradually phased out on taxable income between $500,000 and $1.5 million. In 2008, the small business deduction provided over $1.1 billion of tax relief to CCPCs in Ontario.

> **ELIMINATING A BARRIER TO SMALL BUSINESS GROWTH**
>
> Ontario's proposed elimination of the small business deduction surtax would make Ontario the only province not to claw back the benefit of the small business deduction.

The benefit of the small business deduction is phased out by a 4.25 per cent surtax that is applied in addition to the regular CIT rates.



Note: Graph not to scale. For illustrative purposes only.
Source: Ontario Ministry of Finance.

As part of the government's plan to enhance the competitiveness of Ontario's corporate tax system, the government proposes to eliminate this barrier to growth for small businesses effective July 1, 2010. This would extend the benefit of the small business deduction to all CCPCs. If passed by the legislature, CCPCs would be taxed at the proposed new small business rate of 4.5 per cent, effective July 1, 2010, on the first $500,000 of active business income, regardless of income level. The proposed elimination of the small business deduction surtax and the general CIT rate cut to 10 per cent, in 2013, would provide all CCPCs with an average CIT rate on active business income of below 10 per cent.

Based on legislation currently in place in other provinces, eliminating the surtax would make Ontario the only province not to claw back the benefit of the small business deduction.

This measure would be pro-rated for taxation years straddling the effective date.

Reducing the Corporate Minimum Tax

The CMT is calculated as the amount by which four per cent of adjusted net income for accounting purposes exceeds CIT payable. The CMT generally acts as a prepayment of CIT by providing for a carry-forward credit equal to the amount of CMT paid. The credit can be carried forward up to 20 years and may be applied to reduce CIT in years where CIT exceeds CMT. A corporation or an associated group of corporations with total assets under $5 million and annual gross revenues under $10 million does not pay CMT.

As a result of the CIT reform proposals in this Budget, a corresponding reduction in the CMT rate is necessary to ensure that corporations subject to the CMT are able to fully benefit from the proposed CIT rate reductions. In addition, the government is proposing to exempt more small and medium-sized businesses from calculating and paying the CMT.

It is proposed that effective for taxation years ending after June 30, 2010:

- the CMT rate be reduced to 2.7 per cent; and
- a corporation or an associated group with under $50 million in total assets or under $100 million in annual gross revenues would not pay CMT.

The 20-year CMT credit carry-forward mechanism would continue to apply.

The proposed rate reduction would be pro-rated for taxation years straddling the effective date.

Ontario's Legislated Plan to Eliminate Capital Tax

Capital Tax, which taxes business investment, is widely recognized as a barrier to attracting new investment. In 2004, the government set out a plan to eliminate Ontario's Capital Tax by 2012.

Since then, the government has accelerated the elimination plan and further relieved the Capital Tax burden on business. On January 1, 2007, Capital Tax rates were cut by an additional 21 per cent, and Capital Tax was eliminated for Ontario companies primarily engaged in M&P and resource activities.

On January 1, 2010, Capital Tax rates will be cut by one-third and the tax will be fully eliminated on July 1, 2010. The accelerated Capital Tax elimination plan has been fully legislated.

Ontario's Accelerated Capital Tax Elimination Plan — **Table 7**

		Rates (Per Cent)				
		Non-Financial Institutions		Financial Institutions		
				1st $400 Million of Taxable Capital	Taxable Capital Over $400 Million	
Date	Deduction ($ M)	M&P and Resources[1]	Other Corporations		Non-Deposit Taking	Deposit Taking
2004	5	0.3	0.3	0.6	0.72	0.9
Jan. 1, 2007	12.5	Eliminated	0.225	0.45	0.54	0.675
Jan. 1, 2008	15		0.225	0.45	0.54	0.675
Jan. 1, 2010	15		0.15	0.3	0.36	0.45
July 1, 2010	Legislated Accelerated Elimination Date					

Measures are pro-rated for taxation years straddling the effective date.

1 Primarily engaged in manufacturing and processing, mining, logging, farming or fishing activities in Ontario.

TARGETED TAX MEASURES

This Budget proposes a number of targeted tax measures to build on the government's five-point economic plan to create jobs, strengthen the economy and enhance the quality of life in the province. These targeted tax relief measures would support key sectors in the economy, innovation and skills training, and would provide additional benefits of more than $940 million over four years to Ontario families, businesses and communities.

Encouraging Innovation

Ontario Innovation Tax Credit

The Ontario Innovation Tax Credit (OITC) is a 10 per cent refundable tax credit for small and medium-sized corporations performing eligible Scientific Research and Experimental Development (SR&ED) in Ontario.

This Budget proposes to extend the OITC to more small and medium-sized corporations by extending the taxable income phase-out range of between $400,000 and $700,000 to a new phase-out range of between $500,000 and $800,000.

This measure would parallel the enhancement of the federal Investment Tax Credit for SR&ED proposed in the 2009 federal budget.

The required amendments would be introduced once the implementing federal legislation is enacted. The effective date of the amendments and phase-in rules would parallel the federal amendments.

Accelerated Capital Cost Allowance for Computers

Currently, computers are eligible for a 55 per cent Capital Cost Allowance (CCA) rate on a declining-balance basis.

Ontario will parallel the 2009 federal budget proposal to provide a temporary 100 per cent accelerated CCA rate for eligible computers and software acquired after January 27, 2009 and before February 2011, subject to federal implementation. As announced federally, the temporary accelerated CCA rate for computers will not be subject to the half-year rule and, accordingly, the full cost of eligible computers and software can be deducted in the first taxation year that the assets are available for use.

Supporting Key Sectors

Accelerated Capital Cost Allowance for Manufacturing and Processing Machinery and Equipment

Ontario and the federal government currently provide a temporary tax incentive in the form of an accelerated CCA rate for M&P machinery and equipment acquired after March 18, 2007 and before 2012. Eligible assets acquired before 2010 qualify for a 50 per cent straight-line accelerated CCA rate and those acquired in 2010 and 2011 are eligible for accelerated CCA rates on a declining-balance basis.

Ontario will parallel the 2009 federal budget proposal to extend the 50 per cent straight-line accelerated CCA rate for eligible assets acquired in 2010 and 2011, subject to federal implementation.

Ontario continues to call on the federal government to extend the 50 per cent straight-line CCA rate to all M&P machinery and equipment acquired before 2014 to benefit businesses making longer-term investments.

Making the Enhanced Ontario Film and Television Tax Credit Rate Permanent

The Ontario Film and Television Tax Credit (OFTTC) is a refundable tax credit available to qualifying corporations for labour expenditures related to certified domestic film and television productions in Ontario.

In the 2007 Ontario Economic Outlook and Fiscal Review, the government announced an increase to the OFTTC rate to 35 per cent from 30 per cent, effective January 1, 2008 to December 31, 2009.

As announced on February 20, 2009, the government proposes to make the enhanced 35 per cent OFTTC rate permanent.

Making the Enhanced Ontario Production Services Tax Credit Rate Permanent

The Ontario Production Services Tax Credit (OPSTC) is a refundable tax credit available to qualifying corporations for labour expenditures related to qualifying foreign film and television production services and non-certified domestic film and television productions in Ontario.

In the 2007 Ontario Economic Outlook and Fiscal Review, the government announced an increase to the OPSTC rate to 25 per cent from 18 per cent effective January 1, 2008 to December 31, 2009.

As announced on February 20, 2009, the government proposes to make the enhanced 25 per cent OPSTC rate permanent.

Enhancing the Ontario Interactive Digital Media Tax Credit

The Ontario Interactive Digital Media Tax Credit (OIDMTC) is a refundable tax credit available to qualifying corporations for expenditures related to the creation, marketing and distribution of eligible interactive digital media products. Currently, a 30 per cent refundable tax credit is available to small

corporations that develop their own eligible products and a 25 per cent refundable tax credit is available to large corporations that develop their own eligible products or to corporations that develop eligible products under a fee-for-service arrangement.

This Budget proposes permanent enhancements to the OIDMTC to:

- enhance the tax credit rates;
- expand eligible labour expenditures; and
- extend the tax credit to more fee-for-service arrangements.

Enhancing the OIDMTC Rate

This Budget proposes, effective for qualifying expenditures incurred after March 26, 2009, to enhance the OIDMTC rates to:

- 40 per cent for qualifying corporations, regardless of size, that develop and market their own eligible products; and
- 35 per cent credit for qualifying corporations that develop eligible products under a fee-for-service arrangement.

Expanding Eligible Labour Expenditures under the OIDMTC

This Budget proposes to expand the OIDMTC, effective for qualifying expenditures incurred after March 26, 2009, to allow corporations to claim 100 per cent of the amount paid to eligible arm's-length contractors that is attributable to the salaries and wages of the contractor's employees. Currently, qualifying corporations that develop and market their own products are able to claim 50 per cent of such labour expenditures while corporations developing eligible products under a fee-for-service arrangement are unable to claim these expenditures.

Extending the OIDMTC to More Fee-for-Service Arrangements

This Budget also proposes, effective for qualifying expenditures incurred after March 26, 2009, to extend the OIDMTC to digital media game developers that incur a minimum $1 million of eligible labour expenditures over a 36-month period for fee-for-service work done in Ontario in respect of an eligible product. Corporations that meet the minimum expenditure test would not be required to be at arm's length with the purchaser corporation, or to develop all, or substantially all, of the eligible product.

Expanding the Ontario Computer Animation and Special Effects Tax Credit

The Ontario Computer Animation and Special Effects (OCASE) tax credit is a 20 per cent refundable tax credit available to qualifying corporations for eligible labour expenditures related to digital animation and special effects in qualifying film and television productions.

This Budget proposes, effective for qualifying expenditures incurred after March 26, 2009, enhancements to the OCASE tax credit that would:

- increase eligible labour expenditures to 100 per cent from 50 per cent of amounts paid to arm's-length unincorporated individuals and partnerships providing freelance services;
- expand eligible labour expenditures to include 100 per cent of amounts paid to arm's-length incorporated individuals providing freelance services while ensuring that incorporated individuals cannot claim the credit directly; and
- streamline administration by relaxing the requirement that an eligible animation or visual effect be created primarily with digital technologies.

Expanding the Ontario Book Publishing Tax Credit

The Ontario Book Publishing Tax Credit is a 30 per cent refundable tax credit available to Ontario book publishing corporations for qualifying expenditures related to publishing and promoting the first three books by a Canadian author in an eligible category of writing. Eligible categories of writing are adult or children's fiction, non-fiction, poetry or biography.

This Budget proposes to expand eligibility to qualifying expenditures incurred after March 26, 2009 for:

- any number of books by a Canadian author in an eligible category of writing; and
- direct expenses that reasonably relate to publishing an electronic version of an eligible book.

Supporting Skills and Knowledge

Enhancing the Co-operative Education Tax Credit

The Co-operative Education Tax Credit (CETC) is a refundable tax credit available to businesses that employ postsecondary students enrolled in qualifying co-operative education programs at eligible educational institutions. Currently, the CETC is a 10 per cent refundable tax credit (15 per cent for small businesses) on salaries and wages paid, to a maximum credit of $1,000 per work placement.

This Budget proposes enhancements to the CETC, effective for eligible expenditures incurred after March 26, 2009, that would:

- increase the 10 per cent CETC rate to 25 per cent and the enhanced 15 per cent rate for small businesses to 30 per cent; and
- increase the maximum tax credit available from $1,000 to $3,000 per work placement.

Enhancing the Apprenticeship Training Tax Credit

The Apprenticeship Training Tax Credit (ATTC) is a refundable tax credit available to businesses on the salaries and wages paid to eligible apprentices in designated construction, industrial, motive power and service trades. Currently, the ATTC provides a 25 per cent refundable tax credit (30 per cent for

small businesses) on the salaries and wages paid during the first 36 months of an apprenticeship program, to a maximum annual credit of $5,000. The ATTC is available for apprentices that begin their apprenticeship program before January 1, 2012 and salaries and wages paid before January 1, 2015.

This Budget proposes enhancements to the ATTC that would make it the most generous tax credit of its kind currently legislated in Canada. These proposed enhancements, effective for expenditures incurred after March 26, 2009, would:

- increase the 25 per cent ATTC rate to 35 per cent and the enhanced 30 per cent rate for small businesses to 45 per cent;
- increase the $5,000 annual maximum tax credit to $10,000;
- extend the ATTC to salaries and wages paid during the first 48 months of an apprenticeship program; and
- make the ATTC a permanent tax incentive.

Helping Seniors and Families

Ontario Senior Homeowners' Property Tax Grant

Introduced in the 2008 Budget, the Ontario Senior Homeowners' Property Tax Grant is providing a grant of up to $250 to help low- to middle-income senior homeowners pay their 2009 property taxes.

Starting in 2010, the maximum grant amount will be doubled from $250 to $500. Senior homeowners can apply for the grant when filing their income tax returns. In 2010, over 575,000 seniors will be able to benefit from this grant.

Eligible single seniors with $500 or more in property taxes and income of up to $35,000 a year will receive the maximum $500 grant in 2010. Eligible single seniors with income between $35,000 and $50,000 will receive a proportionately smaller grant. Eligible senior couples with $500 or more in property taxes and income of up to $45,000 a year will receive the maximum grant. Eligible senior couples with income between $45,000 and $60,000 will receive a proportionately smaller grant.

Ontario Property and Sales Tax Credits for Seniors

The Ontario Property and Sales Tax Credits for seniors were established in 1992 to assist seniors with modest incomes. In 2004, the government enhanced these refundable credits by increasing the underlying property tax credit amount by 25 per cent, from $500 to $625. In each of the last four budgets, the government also increased the income threshold at which senior couples' benefits begin to be reduced.

The 2009 minimum level of income guaranteed by the Ontario and federal governments for eligible senior couples is rising because of increases to Old Age Security (OAS) and the Guaranteed Income Supplement (GIS). As a result of these increased amounts, the minimum level of income guaranteed by

governments, including Ontario's Guaranteed Annual Income System (GAINS), for qualifying Ontario senior couples is rising above $24,300 in 2009.

The Province wants seniors who receive the guaranteed minimum level of income to get the full benefit of the Ontario Property and Sales Tax Credits. To achieve this goal, this Budget proposes to increase the income threshold for senior couples in 2009. The new level would be determined when the federal government finalizes OAS and GIS amounts for 2009. About 695,000 senior recipients would benefit this year from an estimated $95 million in enhancements to these credits since 2003, including this proposal.

Starting in 2010, the Ontario Property and Sales Tax Credits would be replaced with a new Ontario Sales Tax Credit and a new Ontario Property Tax Credit.

Increasing Access to Locked-In Accounts

This Budget proposes to amend the *Pension Benefits Act* Regulation and the Schedule of Required Fees to:

- enhance access to locked-in funds by increasing, from 25 per cent to 50 per cent, unlocking permitted on purchase from new Life Income Funds (LIFs), effective January 1, 2010. Current new LIF owners would have an opportunity to unlock an additional 25 per cent of amounts previously transferred into their existing fund. Remaining old LIFs and Locked-in Retirement Income Funds (LRIFs) would be harmonized with the updated new LIF rules; and
- temporarily waive financial-hardship application withdrawal fees for Ontario locked-in accounts. This two-year fee waiver would take effect for applications approved on or after April 1, 2009.

Concordance with the Income Tax Act *(Canada)*

The following proposals announced by the federal government in its 2009 budget to help families would be adopted automatically once federal legislative and regulatory changes have been approved.

- Effective for withdrawals from Registered Retirement Savings Plans (RRSPs) made after January 27, 2009, the Home Buyers' Plan withdrawal limit would be increased from $20,000 to $25,000. As a result, first-time homebuyers would have greater access to funds to purchase or build a home. The increase to the withdrawal limit would also be available to those who purchase or build a more accessible home for the benefit of a related person with a disability, and to persons with disabilities who purchase or build a more accessible home.
- Where the final distribution of property from the RRSP or Registered Retirement Income Fund (RRIF) of a deceased annuitant occurs after 2008, the amount of post-death decreases in the value of the plan would be allowed to be carried back and deducted against the year-of-death RRSP/RRIF income inclusion.

Tax-Free Savings Accounts and the Succession Law Reform Act

The government proposes to change the *Succession Law Reform Act* (SLRA) to allow for beneficiary designation of Tax-Free Savings Accounts (TFSAs). Designated beneficiaries would be able to receive TFSAs outside of a will in the same way that beneficiaries can receive proceeds of RRSPs. The TFSA could also pass to the designated beneficiary without being subject to Estate Administration Tax, simplifying estate matters and reducing costs.

Other Measures

New Measures to Encourage Tobacco Tax Compliance

Ontario continues to review opportunities in its *Tobacco Tax Act* to enhance its enforcement measures to encourage compliance. The following proposals build on measures enacted over the past five years to strengthen enforcement against the illegal manufacture and distribution of tobacco products. These proposed measures would add the following:

- enforcement provisions aimed at individuals suspected of contravening the act;
- the authority for the court to suspend the driver's licence of a person convicted of an offence under the act involving the use of a vehicle;
- provisions that prohibit the possession of any quantity of unmarked cigarettes, unless otherwise permitted under the act; and
- requirements to mark fine-cut tobacco similar to cigarettes. Revenue officials will consult with manufacturers on how to best implement this measure.

The federal government has requested that the Ontario Flue-Cured Tobacco Growers' Marketing Board revise its licensing system for tobacco leaf production. Government enforcement agencies will have access to the Board's licensing records in their ongoing efforts to address the distribution of raw leaf tobacco that may be used in contraband tobacco products.

Ontario will continue to work with key stakeholders and its federal and provincial counterparts to explore new and innovative measures to address contraband tobacco.

Ontario Political Contributions

As announced on December 30, 2008, the government proposes to introduce legislation this spring to convert the tax deduction that was available for corporations making eligible Ontario political contributions under the *Corporations Tax Act* into a non-refundable tax credit, based on the general CIT rate, under the *Taxation Act, 2007*. The proposed tax credit, effective for taxation years ending after December 31, 2008, would maintain a similar level of support as that provided under the former tax deduction.

Eligible Ontario political contributions would be contributions made under the *Election Finances Act* to Ontario parties and constituency associations or to candidates in an Ontario election. Unused contributions, including those from pre-2009 taxation years, would be available to be carried forward and claimed for up to 20 years. Similar to the deduction, the annual contribution limit would be indexed according to the manner and schedule set out in the *Election Finances Act*.

PENSION REFORM MEASURES

Solvency Funding Relief Measures

In December 2008, the government announced that it would seek the approval of the legislature to provide temporary solvency funding relief to pension plans affected by the financial-market turmoil and take steps to ensure greater transparency while helping to protect the security of pension benefits.

Amendments to the *Pension Benefits Act* (PBA) will be introduced that would, if passed, provide for temporary solvency funding relief through regulations that would have retroactive effect to September 30, 2008.

CONSENT FOR 10-YEAR SOLVENCY EXTENSIONS

All plans, except those that are jointly governed (e.g., multi-employer and jointly sponsored pension plans), would be required to obtain the consent of plan beneficiaries to extend the solvency payment schedule.

- The solvency payment schedule would only be extended if no more than one-third of the aggregate of all active, deferred and retired plan members indicate (before the start of payments) that they do not consent.
- Collective bargaining agents would only be able to provide consent for the proportionate share of the active members whom they represent.

Under proposed solvency relief rules, when filing the first scheduled valuation report dated on or after September 30, 2008, a plan administrator would be able to elect to:

- consolidate existing solvency payment schedules into a new five-year payment schedule;
- defer for one year from the valuation date, the start of new going-concern and solvency special payments identified in the valuation report; and
- subject to consent, extend the solvency payment schedule to a maximum of 10 years for a new solvency deficiency determined in the report.

To further enhance solvency relief and to maximize its effectiveness, up to 10 years of going-concern special payments could be taken into account to determine the net solvency deficiency where the special payment schedule is extended to a maximum of 10 years.

If an election is made, a solvency excess identified in subsequent valuation reports could be used to reduce or eliminate solvency special payments identified in the initial report. To promote transparency,

enhanced notice regarding the funded status of the plan and the effect of the election would be provided to active, deferred and retired members.

If solvency payment schedules are consolidated or extended, future benefit enhancements would be funded over a maximum of five years on both a solvency and going-concern basis. This provision would remain in effect for up to five years following the start of special payments identified in the initial valuation report.

To protect benefit security in light of adverse economic conditions, contribution holidays would not be permitted in fiscal years ending in 2010 to 2012 unless:

- an actuarial cost certificate, based on an approximation from the last filed report, is filed annually with the Financial Services Commission of Ontario (FSCO) and the cost certificate confirms the plan was in a surplus position at the start of the fiscal year; or
- the plan is a designated plan under the *Income Tax Act* (Canada).

The Canadian Institute of Actuaries' revised Standard of Practice for Pension Commuted Values, scheduled to take effect April 1, 2009, could be used for the purpose of solvency valuations as of December 12, 2008, if the legislature approves the necessary regulation-making authority.

Strengthening Ontario's Pension System

In November 2006, the Ontario government established the Expert Commission on Pensions. The Commission held extensive consultations with Ontarians and issued its final report, *A Fine Balance: Safe Pensions, Affordable Plans, Fair Rules*, in November 2008.

The government is reviewing the many comments received from stakeholders about the Commission's report and will continue to be informed by ongoing stakeholder engagement.

Moving Forward with Pension Modernization

The government is moving forward on a number of initiatives to modernize Ontario's pension system, including legislative or regulatory amendments to the PBA to assist plan sponsors, plan members, retired members and their families.

Pension Division on Marriage Breakdown

The current rules that apply to pension division on marriage breakdown have resulted in unnecessary delays, costs and disputes for spouses, plans and the pensions regulator. Following consultations, the government is moving forward with important changes, introduced in Bill 133 on November 24, 2008. These changes would simplify and clarify pension rules faced by members, pensioners and spouses in the difficult process of marriage breakdown. If legislation is approved by the legislature, the government will consult with stakeholders on regulatory details.

Phased Retirement

Complementary to recent federal tax changes, amendments would be introduced to permit pension plans to offer phased retirement programs to workers. These changes would permit plans to allow members at retirement age to continue working while receiving a pension and continuing to accrue pension benefits. These reforms would enhance labour market flexibility by helping employers retain valuable employees while providing workers with additional employment opportunities.

Enhancing the Powers of the Superintendent of Financial Services

Complementary to recent amendments to the federal *Companies' Creditors Arrangement Act*, amendments would be introduced to allow the Superintendent to review certain pension arrangements in restructuring proceedings.

Modernizing Multi-jurisdictional Regulation

To improve the regulation and administration of multi-jurisdictional pension plans, the government will finalize a new agreement governing the regulation of these plans. The proposed new agreement is being developed in partnership with other governments under the auspices of the Canadian Association of Pension Supervisory Authorities.

Improving Pension Regulation

The government has taken steps to strengthen the regulation of pensions:

- In response to concerns raised by the Expert Commission on Pensions' report, between March 31, 2008 and January 31, 2009, FSCO reduced outstanding pension applications relating to asset transfers, plan mergers and surplus distributions by 60 per cent and reduced the average processing time for all defined benefit pension plan applications by 25 per cent.
- To further improve service and enhance the effectiveness of pension plan regulation, FSCO will assign 25 additional full-time positions to support better regulatory efficiency and oversight. These resources are being phased in over a three-year period.

Laying the Groundwork for Further Reform

The government is committed to introducing a package of pension reforms in the legislature in the fall of 2009 to further modernize Ontario's pension system. Additional stakeholder input, building on responses to the Commission's report, will be sought. As part of the government's plan to transform Ontario's pension system, the Province is:

- establishing a Pension Reform Advisory Council, representing a broad spectrum of interests and perspectives, to provide practical and focused feedback on specific pension reform proposals;
- formally consulting with the Canadian Institute of Actuaries and FSCO representatives to review actuarial standards and practices to improve pension plan funding;

- initiating the first actuarial projection study of the stability and financial status of the Pension Benefits Guarantee Fund, including revenues and claims, to inform the development of long-term policy;
- improving data collection and developing greater analytical and research capacity to improve pension policy and regulation; and
- working with the federal government and other provinces to explore possible strategies to increase pension coverage for working Ontarians and their families.

These are critical first steps to a legislative framework that better supports today's workforce, as well as current and future pensioners in Ontario.

Ontario Teachers' Pension Plan

Expanded Mandate

The government is introducing legislation that, if passed, would expand the mandate of the Ontario Teachers' Pension Plan (OTPP) Board if the government and the Ontario Teachers' Federation (as Partners of the Plan) agree. The amendment would permit the OTPP Board to provide pension administration and investment services to other pension plans and institutional investors in the public sector.

- Benefits would include higher revenues for the OTPP Board, lower administrative costs and enhanced investment opportunities for future OTPP clients.
- This change is consistent with recommendations of the Expert Commission on Pensions that large pension plans be permitted to offer their services to smaller pension plans to improve investment returns for Ontario pension plans and others.

Government Contributions

In September 2008, the Province came to an agreement with the Ontario Teachers' Federation and the OTPP Board to reduce guaranteed inflation protection from 100 per cent to 50 per cent of annual consumer price index (CPI) changes for pension benefits earned after December 31, 2009. The intention is to provide inflation adjustments at 100 per cent of the annual change in the CPI. However, adjustments in excess of 50 per cent will depend on the financial health of the plan in the future.

As part of the agreement, the government proposes to amend the *Teachers' Pension Act* to allow it and other employers that contribute to the Plan to make specified contributions to the pension plan whenever inflation protection adjustments paid to retired teachers and others are less than 100 per cent of the annual CPI change.

Financial Information

Currently, every government ministry and Crown agency must provide the Minister of Finance with financial information when required for budgetary and Public Accounts purposes. In recent years, additional entities such as hospitals and colleges have been consolidated in the Province's financial statements.

A technical amendment to the *Ministry of Treasury and Economics Act* is proposed that, if passed, would extend the same information and reporting requirements to public-sector pension plans that are either sponsored or co-sponsored by the Province, or by an organization consolidated on the Province's financial statements.

In addition, a technical amendment is also being proposed to the *Financial Administration Act* to clarify that pension expense adjustments arising from actuarial valuations are non-cash statutory accounting adjustments. Cash pension contributions will continue to be treated as pension expenses requiring voted appropriations.

TECHNICAL AMENDMENTS

Legislation will be proposed to improve administrative effectiveness and enforcement, and maintain the integrity and equity of Ontario's tax and revenue collection system, as well as enhance legislative clarity and regulatory flexibility to preserve policy intent, including amendments to the following statutes:

- *Assessment Act*
- *Capital Investment Plan Act, 1993*
- *City of Toronto Act, 2006*
- *Commodity Futures Act*
- *Community Small Business Investment Funds Act*
- *Corporations Act*
- *Corporations Tax Act*
- *Education Act*
- *Electricity Act, 1998*
- *Employer Health Tax Act*
- *Financial Administration Act*
- *Fuel Tax Act*
- *Gasoline Tax Act*
- *Government Advertising Act, 2004*
- *Income Tax Act*
- *Land Transfer Tax Act*
- *Local Roads Boards Act*
- *Mining Tax Act*
- *Ministry of Revenue Act*
- *Ministry of Treasury and Economics Act*
- *Municipal Act, 2001*
- *Northern Services Boards Act*
- *Ontario Home Ownership Savings Plan Act*
- *Pension Benefits Act*
- *Provincial Land Tax Act, 2006*
- *Public Service Pension Act*
- *Retail Sales Tax Act*
- *Securities Act*
- *Statute Labour Act*
- *Taxation Act, 2007*
- *Teachers' Pension Act*
- *Tobacco Tax Act*
- *Treasury Board Act, 1991*

2009 Budget Impact Summary **Table 8**
($ Millions)

	2008–09	2009–10	2010–11	2011–12	2012–13
Tax Reform Measures					
Conversion of RST Base to New Sales Tax Base	–	–	1,670	2,175	2,315
Tax Measures for People					
Personal Income Tax Cut	–	(275)	(1,115)	(1,175)	(1,240)
New Sales Tax and Property Tax Credits	–	40	(770)	(1,125)	(1,185)
Ontario Sales Tax Transition Benefit[1]	–	–	(2,700)	(1,300)	–
	–	(235)	(4,585)	(3,600)	(2,425)
Tax Measures for Business					
CIT and CMT Cuts	–	–	(530)	(1,330)	(1,665)
Small Business CIT Rate Cut	–	–	(35)	(150)	(150)
Small Business Surtax Elimination	–	–	(65)	(70)	(70)
Small Business Transition Credit[1]	–	–	(400)	–	–
	–	–	(1,030)	(1,550)	(1,885)
Temporary ITC Restrictions for Business	–	–	905	1,260	1,315
Total Tax Reform Measures	–	(235)	(3,040)	(1,715)	(680)
Targeted Tax Measures					
Encouraging Innovation					
Ontario Innovation Tax Credit (OITC)	–	(2)	(2)	(2)	(2)
Accelerated Capital Cost Allowance for Computers	(4)	(110)	(53)	59	48
Supporting Key Sectors					
Accelerated Capital Cost Allowance for Manufacturing and Processing Machinery and Equipment	–	–	–	(110)	(180)
Ontario Film and Television Tax Credit (OFTTC)	–	(15)	(58)	(58)	(58)
Ontario Production Services Tax Credit (OPSTC)	–	(5)	(19)	(19)	(19)
Ontario Interactive Digital Media Tax Credit (OIDMTC)	–	(7)	(10)	(15)	(17)
Ontario Computer Animation and Special Effects Tax Credit (OCASE)	–	(9)	(9)	(9)	(9)
Ontario Book Publishing Tax Credit (OBPTC)	–	(3)	(3)	(3)	(3)
Supporting Skills and Knowledge					
Co-operative Education Tax Credit (CETC)	–	(10)	(10)	(10)	(10)
Apprenticeship Training Tax Credit (ATTC)	–	(40)	(40)	(40)	(40)
Helping Seniors and Families					
Ontario Property and Sales Tax Credits for Seniors	(1)	(5)	–	–	–
Concordance with the *Income Tax Act* (Canada)	(9)	(9)	(3)	(4)	(5)
Tax-Free Savings Accounts (TFSAs)	–	(2)	(3)	(5)	(6)
Total Targeted Tax Measures	(14)	(217)	(210)	(216)	(301)
Total Tax Changes	(14)	(452)	(3,250)	(1,931)	(981)

1 Transitional support reported as a program expense.

CHAPTER IV

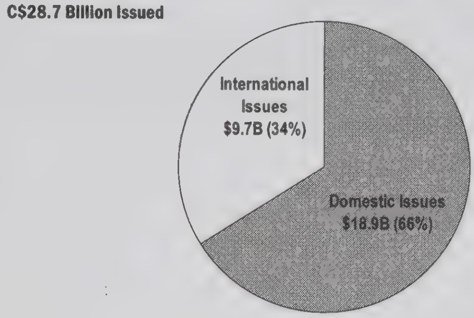
Borrowing and Debt Management

LONG-TERM PUBLIC BORROWING

Ontario successfully completed its 2008–09 borrowing program, despite the continuing challenges in the global financial markets. It did so by maintaining a flexible approach and by being responsive to the preferences of bond investors.

The interim long-term borrowing for 2008–09 is $28.7 billion, compared to $24.3 billion in the 2008 Budget. The difference is primarily due to the projected deficit.

Borrowing – All Markets **Chart 1**



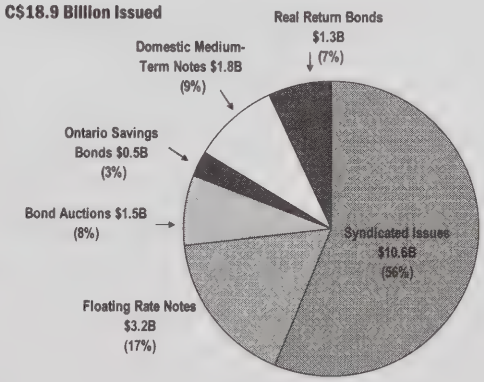
Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

In 2008–09, about 34 per cent ($9.7 billion) was borrowed in the international capital markets.

Bonds issued in foreign currencies were:

- Global bonds in U.S. dollars and euros
- Euro Medium-Term Notes (EMTNs) in U.K. sterling, Swiss francs, Japanese yen, and U.S. and Hong Kong dollars
- one Japanese yen loan.

Borrowing – Domestic Market **Chart 2**



Source: Ontario Financing Authority.

About $18.9 billion, or 66 per cent, of borrowing was completed in the domestic market through a number of instruments, including:

- syndicated issues
- floating rate notes
- domestic medium-term notes

- bond auctions
- real return bonds
- Ontario Savings Bonds.

2008–09 Borrowing Program: Province and Ontario Electricity Financial Corporation ($ Billions) — **Table 1**

	Budget Plan	Interim	In-Year Change
Deficit	0.0	3.9	3.9
Non-Cash Adjustments	(0.9)	1.9	2.8
Investment in Capital Assets	4.9	4.3*	(0.6)
Net Loans/Investments	1.3	0.9	(0.4)
Debt Maturities	20.5	20.3	(0.2)
Debt Redemptions	1.0	0.5	(0.5)
Total Funding Requirement	**26.9**	**31.9**	**5.0**
Canada Pension Plan Borrowing	(0.6)	(0.5)	0.1
Decrease/(Increase) in Short-Term Borrowing	(2.0)	(5.5)	(3.5)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	2.8	2.8
Total Long-Term Public Borrowing Requirement	**24.3**	**28.7**	**4.4**

* Using the medium-term outlook presentation, the equivalent number is $6.2 billion. The need to maintain consistency with the 2008 Budget for comparison purposes required interim investments in capital assets to be presented differently. Total capital investments funded remain consistent since school board acquisitions funded by the Province are part of Net Loans/Investments.

Note: Numbers may not add due to rounding.

The interim total long-term public borrowing for 2008–09 is $28.7 billion. Key contributors to the increase in the total long-term public borrowing requirement include the projected deficit and non-cash adjustments.

The restructuring of the frozen Canadian asset-backed commercial paper (ABCP) market was completed in January 2009. Under the agreement, the Province, along with the federal government, Alberta and Quebec, provided assistance to the ABCP restructuring efforts through a Senior Funding Facility (SFF). Ontario's contribution to the SFF is the smallest, with an allocation of $250 million. The contribution of the government of Alberta is $300 million, and Quebec and the federal government each contributed $1.3 billion. No fiscal impact is expected from the SFF as it is in the form of an indemnity, which is not expected to be called upon.

The Province received $636.8 million in restructured notes due to its holdings of third-party ABCP. The Province plans to hold the notes to maturity. By holding the notes to maturity, it is expected that the Province will recover most of the accounting writedown taken last year.

While no significant further writedown is expected, the Province — with the assistance of external accounting advisers — will review the accounting treatment of third-party ABCP for the Public Accounts of Ontario.

Medium-Term Borrowing Outlook: Province and Ontario Electricity Financial Corporation ($ Billions)			Table 2
	2009–10	2010–11	2011–12
Deficit	14.1	12.2	9.7
Non-Cash Adjustments	(2.0)	(2.5)	(3.0)
Investment in Capital Assets	9.5	11.4	10.4
Net Loans/Investments	1.9	0.0	0.0
Debt Maturities:			
Currently Outstanding	14.6	15.7	13.9
Incremental Impact of Future Financing	0.0	0.0	2.8
Debt Redemptions	0.4	0.4	0.4
Total Funding Requirement	**38.5**	**37.3**	**34.1**
Canada Pension Plan Borrowing	(0.7)	0.0	(1.0)
Decrease/(Increase) in Short-Term Borrowing	(3.0)	(1.0)	0.0
Increase/(Decrease) in Cash and Cash Equivalents	0.0	(2.0)	(1.0)
Total Long-Term Public Borrowing Requirement	**34.8**	**34.3**	**32.1**

Note: Numbers may not add due to rounding.

To meet additional borrowing requirements for 2009–10 as a result of the deficit and increased investments in capital assets, Ontario will maintain a flexible approach and remain responsive to investor preferences as it monitors both domestic and international opportunities. Diversification of borrowing sources will be a primary objective in 2009–10. Depending on market conditions, the Province plans to borrow 35 per cent to 50 per cent in the international markets.

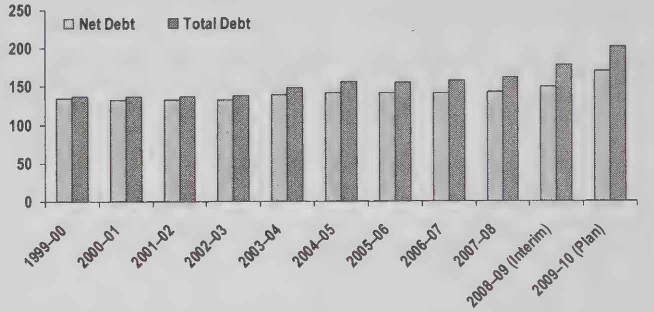
The government will seek approval from the legislature for additional borrowing authority to meet the Province's requirements and to increase short-term borrowing, while maintaining a prudent and flexible approach in the capital markets.

Debt

Total debt, which represents all borrowing without offsetting financial assets, is projected to be $177.3 billion as at March 31, 2009, compared to $162.2 billion as at March 31, 2008. Ontario's net debt, the difference between total liabilities and total financial assets, is projected to be $149.4 billion as at March 31, 2009, compared to $142.4 billion as at March 31, 2008.

Debt Chart 3

($ Billions)



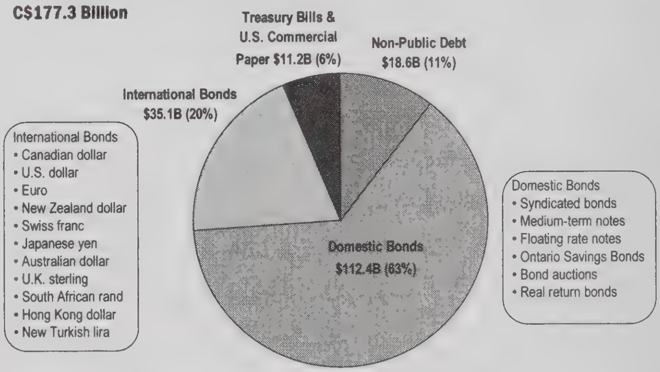
Sources: Ontario Public Accounts 1999–2008, Ontario Ministry of Finance and Ontario Financing Authority.

Interim 2008–09 results for the Ontario Electricity Financial Corporation (OEFC) show a projected excess of revenue over expense of almost $1.0 billion, reducing the Corporation's unfunded liability (or "stranded debt of the electricity sector") from $17.2 billion as at March 31, 2008 to $16.3 billion as at March 31, 2009. Projected 2009–10 OEFC results are an excess of revenue over expense of about $1.2 billion, reducing the unfunded liability to $15.1 billion at March 31, 2010.

Total Debt Composition

Total debt is composed of bonds issued in the public capital markets, non-public debt, treasury bills and U.S. commercial paper.

Total Debt Composition Chart 4



Source: Ontario Financing Authority.

Public debt totals $158.7 billion, primarily consisting of bonds issued in the domestic and international markets in 11 currencies. Ontario also has $18.6 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board. This debt is not marketable and cannot be traded.

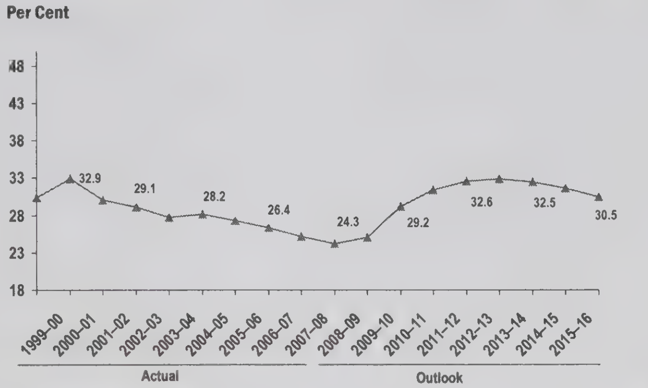
Debt-to-GDP Ratios

The Province's debt-to-GDP ratios are expected to increase over the next three years, reflecting investments to preserve and create jobs, as well as investments in key priority areas.

The net debt-to-GDP ratio is expected to increase more rapidly than accumulated deficit-to-GDP because net debt-to-GDP includes the Province's significant investments in capital.

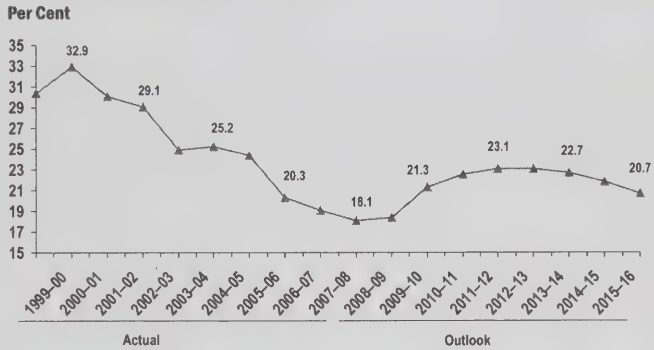
The ratios stabilize and begin to decline during the period of the recovery plan to balance the budget.

Net Debt-to-GDP **Chart 5**



Source: Ontario Ministry of Finance.

Accumulated Deficit-to-GDP[1] **Chart 6**



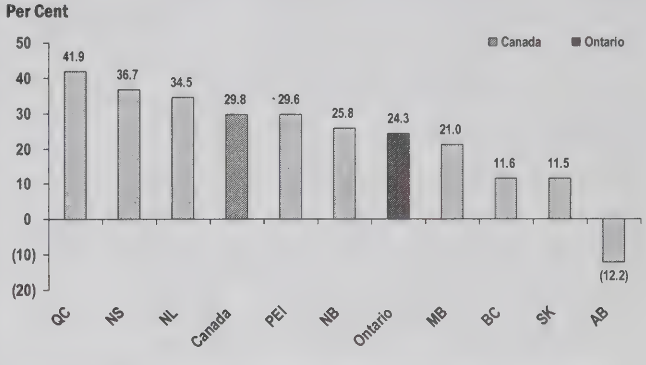
[1]The substantial decline in 2005–2006 was primarily due to a one-time reduction of $16.3 billion to the Province's accumulated deficit resulting from the inclusion of hospitals, school boards and colleges in the Province's financial statements, and reflecting the balance of the sectors' assets less their liabilities as at April 1, 2005.

Comparative Debt Ratios

In 2007–08, the most recent year for which data is available for all jurisdictions, Ontario's net debt-to-GDP level was below the median for the provinces.

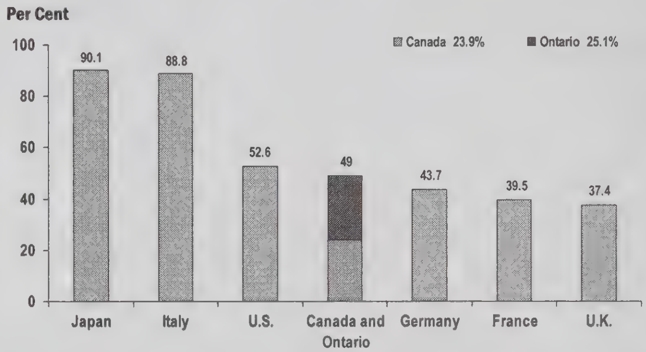
In 2008–09, Canada and Ontario's combined net debt-to-GDP was below the average compared to G7 countries.

Net Debt-to-GDP Provincial Comparison **Chart 7**
2007-08



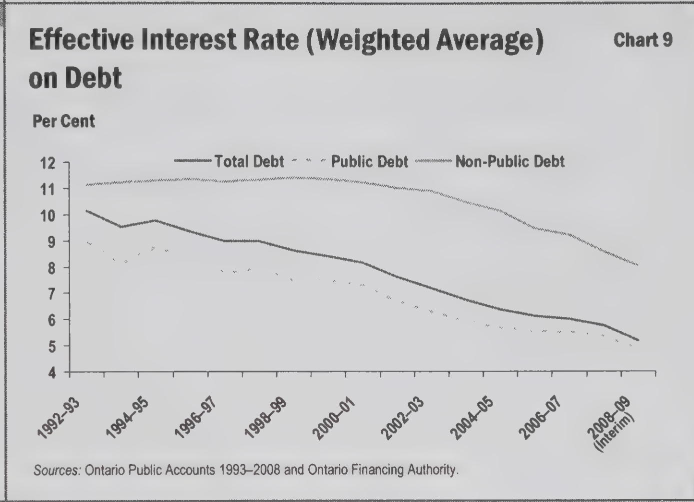
Sources: Statistics Canada, 2009 Federal Budget, Provincial Public Accounts and Ontario Financing Authority .

Net Debt-to-GDP G7 Countries and Ontario **Chart 8**
2008-09



Note: Net debt measures are not always comparable across countries due to different definitions and treatment of debt (and asset) components.
Sources: Statistics Canada, OECD Economic Outlook No. 84 (December 2008) and Ontario Financing Authority.

Cost of Debt



The effective interest rate (on a weighted-average basis) on total debt is estimated to be 5.19 per cent as at March 31, 2009 (March 31, 2008, 5.76 per cent). For comparison, as at March 31, 1993, the effective interest rate on total debt was 10.14 per cent.

The effective interest rate on public debt is estimated to be 4.86 per cent as at March 31, 2009 (March 31, 2008, 5.35 per cent). The effective interest rate on non-public debt is estimated to be 8.05 per cent as at March 31, 2009 (March 31, 2008, 8.59 per cent).

Risk Exposure

The Province limits itself to a maximum net interest-rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign-exchange exposure of five per cent of debt issued for Provincial purposes. As at February 28, 2009, the net interest-rate resetting exposure was 13.4 per cent and foreign-exchange exposure was 0.2 per cent. All exposures remained well below policy limits in 2008–09.

Consolidated Financial Tables

Net Debt and Accumulated Deficit **Table 3**
Interim 2009 **($ Millions)**

	2004–05	2005–06	2006–07	2007–08	Interim 2008–09	Plan 2009–10
Debt[1]						
Publicly Held Debt						
Bonds[2]	125,279	123,129	128,666	134,362	145,663	168,361
Treasury Bills	3,747	5,215	4,249	5,092	9,430	12,465
U.S. Commercial Paper[2]	269	706	254	644	1,809	1,809
Ontario Infrastructure Projects Corporation (OIPC)[3]	1,288	1,323	1,262	1,632	1,700	1,996
Other	404	387	–	–	–	–
	130,987	130,760	134,431	141,730	158,602	184,631
Non-Public Debt						
Canada Pension Plan Investment Board	10,233	10,233	10,233	10,233	10,233	9,797
Ontario Teachers' Pension Fund	8,666	7,596	6,411	4,466	3,001	1,765
Public Service Pension Fund	2,886	2,705	2,502	2,260	1,991	1,713
Ontario Public Service Employees' Union Pension Fund (OPSEU)	1,371	1,285	1,188	1,074	946	814
Canada Mortgage and Housing Corporation	1,003	960	914	863	810	754
Other[4]	1,231	1,367	1,314	1,430	1,642	1,469
	25,390	24,146	22,562	20,326	18,623	16,312
	156,377	154,906	156,993	162,056	177,225	200,943
Unrealized Foreign Exchange Gains	424	426	318	161	77	47
Total Debt	156,801	155,332	157,311	162,217	177,302	200,990
Cash and Temporary Investments[5]	(13,422)	(6,258)	(6,622)	(7,124)	(9,929)	(9,929)
Other Net (Assets)/Liabilities[6]	(1,193)	(5,824)	(8,493)	(11,230)	(16,505)	(19,226)
OIPC Net (Assets)/Other Liabilities[3]	(1,265)	(1,322)	(1,096)	(1,445)	(1,511)	(2,005)
Net Debt	140,921	141,928	141,100	142,418	149,357	169,830
Non-Financial Assets[7]	(15,178)	(32,773)	(34,324)	(36,801)	(39,850)	(46,223)
Accumulated Deficit[8]	125,743	109,155	106,776	105,617	109,507	123,607

1 Includes debt issued by the Province and Government Organizations, including the OEFC.

2 All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts.

3 OIPC's interim 2008–09 debt is composed of Infrastructure Renewal Bonds ($1.25 billion) and short-term commercial paper ($450 million). OIPC's debt is not guaranteed by the Province. OIPC Net (Assets)/Other Liabilities include cash, temporary investments, accounts receivable, loans receivable, debt issue costs, accounts payable and loans payable.

4 Other non-public debt includes Ontario Municipal Employees Retirement Fund, College of Applied Arts and Technology Pension Plan, Ryerson Retirement Pension Plan, Ontario Immigrant Investor Corporation and indirect debt of school boards (the indirect debt of school boards was incurred in June 2003 to refinance the non-permanently financed debt of 55 school boards; an equivalent amount is included in Net Assets as advance payments to school boards).

5 Cash and Temporary Investments excludes OIPC cash and temporary investments, which are reported separately under OIPC Net (Assets)/Other Liabilities.

6 Other Net (Assets)/Liabilities include accounts receivable, loans receivable, advances and investments in government business enterprises, accounts payable, accrued liabilities, pensions and the liability for power purchase agreements with non-utility generators.

7 Non-financial assets include the Province's tangible capital assets and net assets of hospitals, school boards and colleges, which, starting with fiscal year 2005–06, are consolidated using one-line consolidation.

8 Accumulated deficit represents net debt adjusted for non-financial assets. Starting with 2005–06, accumulated deficit includes the opening combined net assets of hospitals, school boards and colleges.

Source: Ontario Ministry of Finance.

Debt Maturity Schedule **Table 4**
Interim 2009 **($ Millions)**

	Currency						
	Canadian Dollar	U.S. Dollar	Japanese Yen	Euro[1]	Other Currencies[2]	Interim 2008–09 Total	2007–08 Total
Fiscal Year Payable							
Year 1	19,010	3,443	747	1,490	870	25,560	27,035
Year 2	12,612	3,519	–	–	252	16,383	13,696
Year 3	8,770	4,924	–	–	47	13,741	11,038
Year 4	7,886	3,530	–	–	550	11,966	7,352
Year 5	12,830	1,010	182	2,404	554	16,980	11,317
1–5 years	61,108	16,426	929	3,894	2,273	84,630	70,438
6–10 years	19,495	4,957	161	385	2,302	27,300	30,670
11–15 years	11,097	–	–	–	–	11,097	9,037
16–20 years	16,658	–	–	–	–	16,658	14,710
21–25 years	8,819	–	–	–	–	8,819	13,469
26–46 years[3]	28,721	–	–	–	–	28,721	23,732
Unamortized Foreign Exchange Gains	–	84	–	–	(7)	77	161
Total[4]	**145,898**	**21,467**	**1,090**	**4,279**	**4,568**	**177,302**	**162,217**
Debt Issued for Provincial Purposes	121,065	19,738	1,090	4,100	3,230	149,223	133,880
OEFC Debt	24,833	1,729	–	179	1,338	28,079	28,337
Total[5]	**145,898**	**21,467**	**1,090**	**4,279**	**4,568**	**177,302**	**162,217**

1 Euro includes debt issued in euros and French franc legacy currency.

2 Other currencies comprise Australian dollar, New Zealand dollar, U.K. sterling, Swiss franc, Hong Kong dollar, South African rand and New Turkish lira.

3 The longest term to maturity is to June 2, 2054.

4 Total foreign currency denominated debt (before unrealized foreign exchange gains) as at March 31, 2009, is projected to be $31.4 billion (2008, $24.7 billion). Of that, $31.0 billion or 99.0 per cent (2008, $23.9 billion or 96.8 per cent) was fully hedged to Canadian dollars.

5 Total debt includes issues totalling $2.4 billion (2008, $2.7 billion) that have embedded options exercisable by either the Province or the bondholder under specific conditions.

Medium-Term Outlook **Net Debt and Accumulated Deficit**	**Table 5** **($ Billions)**	
	2010–11	**2011–12**
Total Debt	220.3	236.6
Cash and Temporary Investments	(7.9)	(6.9)
Other Net (Assets)/Liabilities	(20.6)	(21.6)
OIPC Net (Assets)/Liabilities	(2.3)	(2.6)
Net Debt	189.5	205.4
Non-Financial Assets	(53.7)	(59.9)
Accumulated Deficit	135.8	145.5

Note: Numbers may not add due to rounding.

Derivative Portfolio Notional Value
Interim 2009

Table 6
($ Millions)

Maturity in Fiscal Year	**2009–10**	**2010–11**	**2011–12**	**2012–13**	**2013–14**	**6–10 Years**	**Over 10 Years**	**Interim 2008–09 Total**	**2007–08 Total**
Swaps:									
Interest rate	9,529	9,200	11,144	8,347	5,838	22,997	6,651	73,706	61,028
Cross currency	5,380	3,194	3,097	3,791	6,423	10,485	–	32,370	27,032
Forward foreign exchange contracts	7,665	–	–	–	–	–	–	7,665	2,649
Caps and floors	88	–	–	–	–	–	–	88	88
Total	22,662	12,394	14,241	12,138	12,261	33,482	6,651	113,829	90,797

The table above presents the maturity schedule of the Province's derivatives, by type, interim at March 31, 2009, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows. The Province uses derivatives to hedge and to minimize interest costs. Hedges are created primarily through swaps. Swaps allow the Province to offset existing obligations, effectively converting them into obligations with more desirable characteristics.

GLOSSARY

Note: *The descriptions of the terms in the glossary are solely intended for the assistance of readers of the 2009 Budget. The glossary and the descriptions of the terms in the glossary are not intended to affect or alter the meaning of any terms under law.*

Accounting Period: the time covered by financial statements, which can be for any length of time but is usually a fiscal year (April to March for the Province), a quarter or a month.

Accumulated Deficit: the difference between liabilities and assets. It represents the total of all past annual deficits minus all past annual surpluses, including prior-period adjustments.

Amortize: to allocate an asset's cost to different accounting periods according to the estimated useful life of the asset.

Asset-Backed Commercial Paper (ABCP): a short-term investment vehicle, typically with a maturity of 90 to 180 days. The security itself is generally sponsored by a bank or other financial institution. The notes are backed either directly or indirectly by financial assets such as trade receivables, and are generally used for short-term financing needs.

Bond Auction: a process in which participants can submit a bid to purchase a given amount of a security at a specific price.

Broader Public Sector (BPS): organizations receiving government transfer payments to provide services to the public. Such organizations include universities, colleges, school boards, hospitals, long-term care facilities, community care access centres and children's aid societies.

Business Inputs: current and capital expenditures that businesses acquire to run their operations and to provide goods and services, such as vehicles and fuel, building materials, computers, office furniture and equipment, and telecommunications services.

Canada Health Transfer (CHT): a federal transfer provided to each province and territory in support of health care.

Canada Pension Plan Investment Board (CPPIB) Borrowing: the Province's option of borrowing from the CPPIB as a source of long-term borrowing.

Canada Social Transfer (CST): a federal transfer provided to each province and territory in support of postsecondary education, social assistance and social services, including child care.

Capital Cost Allowance: the portion of the capital cost of an asset (e.g., a building, automobile or machine) that may be deducted for income tax purposes each year.

Capital Expenditure: expenditures to acquire or upgrade physical assets including transportation infrastructure, land and buildings, information technology infrastructure and systems, vehicles, marine fleet and aircraft.

Capital Gain: the net profit arising from the sale or transfer of capital assets or investments; i.e., the proceeds or market value received less the net book value of the capital asset or investment.

Capital Tax: a tax levied on a corporation's taxable capital comprising capital stock, surpluses, indebtedness and reserves.

Cash and Cash Equivalents: cash or other short-term liquid low-risk instruments that are readily convertible to cash, typically within three months or less.

Change in Net Debt: the annual change in net debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets and the change in net assets of hospitals, school boards and colleges.

Consolidation: the inclusion of the financial results of government-controlled organizations in the Province's consolidated financial statements.

Consumer Price Index (CPI): a measure of consumer prices, the Canadian CPI is produced by Statistics Canada on a monthly basis. The CPI measures the retail prices of a shopping basket of about 300 goods and services including food, housing, transportation, clothing and recreation. The index is weighted to reflect typical household spending patterns. The change in a price index such as the CPI is a measure of inflation. Increases in the CPI are also referred to as increases in the cost of living.

Contingency Fund: an amount of expense available to address unanticipated spending pressures; for example, disaster assistance.

Debt: an obligation resulting from the borrowing of money.

Debt Maturities: the total forecast amount of debt due for repayment on specific dates.

Debt Redemptions: the total forecast amount of bond issues expected to be redeemed prior to maturity. Debt redemptions primarily relate to Ontario Savings Bonds.

Debt Term: the remaining term to maturity of long-term debt.

Debt-to-GDP Ratio: a measurement of the government's debt as a percentage of gross domestic product (GDP). It is a measure of the debt in relation to the economy and its capacity to carry and repay debt.

Deficit: the amount by which government expenses exceed revenues in any given year.

Derivatives: financial contracts that derive their value from other underlying instruments. The Province uses derivatives including swaps, forward foreign exchange contracts, forward rate agreements, futures and options to hedge currency exposure and minimize interest costs.

Domestic Medium-Term Notes: debt instruments issued domestically, offered under a program and structured to meet specific investor needs.

Employment Insurance (EI): a federal program funded by premium contributions from workers and employers that provides temporary earnings replacement for unemployed workers through EI regular benefits. The EI program also provides maternity, parental, adoption, sickness, compassionate care, work-sharing and fishing benefits. Employment Insurance Part II provides funding for training programs and income support while training. The federal government provides EI Part II funds through Labour Market Development Agreements with each province and territory. In 2008, the federal government established an arm's-length Crown corporation to manage future EI surpluses.

Employment Ontario: the Province's training and employment services program of over $1 billion annually. Services such as apprenticeship, literacy, technical training, wage subsidies, summer jobs, laid-off worker assistance and employment counselling are provided through an integrated network in communities across the province.

Equalization: a federal government program that provides unconditional transfer payments to provinces whose revenue-raising capacity falls below a federally determined standard.

Euro Medium-Term Notes (EMTNs): debt issued outside the United States and Canada and structured to meet individual investor requirements.

Financial Assets: assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets include cash; an asset that is convertible to cash; a contractual right to receive cash or another financial asset from another party; a temporary or portfolio investment; a financial claim on an outside organization or individual; and inventory.

Fiscal Plan: an outline of the government's consolidated revenue and expense plan, which must address the fiscal year of the Budget and the following two years, although it may address a longer period.

Fiscal Year: the Province of Ontario's fiscal year runs from April 1 to March 31.

Floating Rate Notes (FRNs): debt instruments that bear a variable rate of interest.

Fund: a fiscal and accounting entity segregated for the purpose of carrying on specific activities, or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Futures: an exchange-traded contract that confers on both parties an obligation to buy or sell on a future date a physical or financial commodity at a price and amount specified when the contract is entered into.

Global Bonds: debt securities issued simultaneously in the international and domestic markets, settling through various worldwide clearing systems. These can be issued in a variety of currencies, including Canadian and U.S. dollars.

Gross Domestic Product (GDP): the total unduplicated value of the goods and services produced in the economy of a country or region during a given period of time such as a quarter or a year. Gross domestic product can be measured three ways: as total income earned in current production, as total final expenditures, or as total net value added in current production. *See* Real GDP.

Group of Seven (G7): a grouping of seven of the world's largest industrial market economies: United States, Japan, Germany, France, Britain, Italy and Canada.

Infrastructure: the facilities, systems and equipment required to provide public services and support private-sector economic activity, including network infrastructure (e.g., roads, bridges, water and wastewater systems, large information technology systems), buildings (e.g., hospitals, schools, courts), and machinery and equipment (e.g., medical equipment, research equipment).

Input Tax Credit (ITCs): a credit of single sales tax that registrants could claim to recover the tax they paid or owe on their supplies for goods or services they acquired to provide taxable goods and services.

Interest on Debt Expense: the amount reported as an expense for borrowed money. Interest is calculated as a percentage of the amount of debt for each period of time and excludes the amount of interest capitalized during construction of capital assets.

Investment in Capital Assets: the cost of acquiring or upgrading tangible capital assets owned by the Province and its consolidated organizations during the year, including land, buildings, highways and bridges, information technology infrastructure and systems, vehicles, marine fleet and aircraft.

Labour Market Agreement (LMA): the Canada–Ontario Labour Market Agreement, signed in February 2008, provides funding for six years to Ontario for training and employment services for Ontarians ineligible for EI, including immigrants, persons with disabilities and the long-term unemployed.

Labour Market Development Agreement (LMDA): the Canada–Ontario Labour Market Development Agreement, signed in November 2005, provides funding to Ontario annually from EI Part II to address Ontario's labour-market priorities. Funding supports training and employment services.

Locked-In Accounts: a prescribed retirement savings arrangement under the *Pension Benefits Act* to which members of registered pension plans may transfer funds when they terminate employment or cease membership in a pension plan. Ontario locked-in accounts include locked-in retirement accounts (LIRAs), life income funds (LIFs) and locked-in retirement income funds (LRIFs).

Marginal Effective Tax Rate (METR): the tax rate that applies to an incremental dollar of income from new capital investment. It takes into account federal and provincial corporate income taxes, capital and sales taxes.

Medium-Term Notes (MTNs): debt instruments offered under a program and structured to meet specific investor needs.

Net Debt: the difference between the Province's total liabilities and financial assets.

Net Loans/Investments: the total funds paid by the Province towards loans/investments netted against loan repayments.

Nominal: an amount expressed in dollar terms without adjusting for changes in prices due to, for example, inflation or deflation.

Non-Cash Adjustments: adjustments required to determine the cash inflows from operations and cash outflows for capital expenditures. Non-cash adjustments include changes in balances of accounts receivable; accounts payable; accrued pension and construction liabilities; and investments in government business enterprises. Amortization and imputed interest during construction on capital assets are also non-cash adjustments.

Non-Tax Revenue: the revenue received by the government from external sources. This also includes revenues from the sale of goods and services; fines and penalties associated with the enforcement of government regulations and laws; fees and licences; royalties; profits from a self-sustaining Crown agency; and asset sales.

OntarioBuys: a program of the Ontario Ministry of Finance that provides funding and advice to the Province's broader public sector (BPS) partners, such as hospitals, school boards, colleges and universities, to help them modernize their supply chains and other back-office processes.

Ontario Child Benefit (OCB): an income-tested, non-taxable benefit announced in the 2007 Budget that is provided to low-income families with children in Ontario. In July 2008, OCB benefits started to flow monthly. The OCB consolidates social assistance benefits for children and the Ontario Child Care Supplement for Working Families (OCCS) into one benefit that is paid to all low-income families with children, regardless of the source of their income.

Ontario Child Care Supplement for Working Families (OCCS): an income-tested, non-taxable earnings supplement provided to low-income working families with children under age seven. It is intended to enhance labour-force attachment. In July 2008, OCCS payments were consolidated with the OCB. If a family's OCCS entitlement is larger than its OCB payment, the family still receives the extra OCCS benefit.

Ontario Disability Support Program (ODSP): a program that provides income and employment assistance to people with substantial disabilities. Ontarians aged 65 years or older who are ineligible for Old Age Security may also qualify for ODSP if they are in financial need.

Ontario Savings Bonds (OSBs): an investment that is backed 100 per cent by the Province of Ontario, including both principal and interest. They are available from financial institutions, credit unions, caisses populaires or investment dealers.

Ontario Works: a program that provides income and employment assistance to eligible Ontarians in need. All Ontario Works recipients are required to participate in one or more employment assistance activities as a condition of eligibility for financial assistance. This helps people become self-reliant as quickly as possible.

Option: a contract that gives the purchaser the right, but not the obligation, to buy or sell a specific amount of a commodity, currency or security at a specific price, on a certain future date.

Procurement: the process of acquiring goods and services.

Productivity Growth: the increase in output per unit of a factor of production.

Program Expense: the expense related to operating and capital programs including amortization.

Public Accounts: the Consolidated Financial Statements of the Province along with supporting statements and schedules as required by the *Financial Administration Act, Treasury Board Act* and *Management Board of Cabinet Act*.

Public Service Body: a qualifying non-profit organization, a charity, a municipality, a school authority, a hospital authority, a public college, or a university.

Qualifying Non-Profit Organization: a non-profit organization with government funding that amounts to at least 40 per cent of its total revenue.

Real GDP: gross domestic product measured to exclude the impact of changing prices.

Reserve: an amount included in the fiscal plan to protect the plan against adverse changes in the economic outlook, or in Provincial revenue and expense. Any portion of the reserve not required at year-end is used to improve the surplus/deficit.

Scientific Research and Experimental Development (SR&ED): a systematic investigation or search that is carried out in a field of science or technology by means of experiment or analysis. SR&ED includes basic research — work undertaken to advance scientific knowledge without a specific practical application in view; applied research — work undertaken for the advancement of scientific knowledge with a practical application in view; and experimental development — work undertaken for the purpose of achieving technological advancement for purposes of creating new, or improving existing, materials, devices, products or processes.

Surplus: the amount by which revenues exceed government expenses in any given year.

Surtax: a tax levied on another tax, or a second tax levied on an amount that is already subject to tax.

Syndicated Bond Issues: debt securities that are underwritten by a group of investment dealers.

Tangible Capital Assets: physical assets including land, buildings, transportation infrastructure, information technology infrastructure and systems, vehicles, marine fleet and aircraft.

Total Debt: the Province's total borrowings outstanding without taking into consideration any of the Province's assets.

Total Expense: the sum of program expense and interest on debt expense.

Treasury Bills: short-term debt instruments issued by governments on a discount basis.

U.S. Commercial Paper: short-term debt typically issued in the United States by a government or corporation on a discount basis. U.S. Commercial Paper is limited to terms of one to 270 days.

Value-Added Tax: a multi-stage tax on consumption that applies throughout the supply chain regardless of whether the purchase is for use by a business or consumer, but that allows most businesses to be reimbursed for the tax paid on their business inputs through the use of input tax credits.

Weighted-Average Interest Rate: takes into account the proportion of debt at each level of interest rate in the debt portfolio.

Yield: the effective rate of interest paid on an investment. Yield is the annual rate of return on any investment or debt and is expressed as a percentage.

Zero-Rated Supplies: supplies of goods or services that would be tax free under the single sales tax (i.e. taxed at a rate of zero). Examples of zero-rated supplies would include basic groceries, prescription drugs and medical devices. Providers of zero-rated supplies would be able to claim input tax credits on inputs to be used for zero-rated supplies.

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Ontario

2009 ONTARIO BUDGET

Confronting the Challenge

Building Our Economic Future

The Honourable Dwight Duncan
Minister of Finance

Budget Speech

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Budget Speech

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Introduction

Mr. Speaker, I rise to present Ontario's 2009 Budget.

Confronting the challenge

Ontario is in the middle of a global economic and financial storm.

Our communities are caught in it.

Many of our families and our friends are hurt by it.

No place in the world is immune from it.

We need to confront this challenge head-on, and together build a stronger future.

We know that only a strong and growing economy will create the new jobs of the 21st century.

Only a strong and growing economy will allow us to maintain and enhance our public services.

Immediate steps for future growth

Only a strong and growing economy will help create a green society.

Only a strong and growing economy will yield a better quality of life for all of us.

Building a powerful Ontario economy is our top priority — so Ontario will act.

Mr. Speaker, we are taking immediate steps to create jobs now and to prepare for future growth, future employment and future opportunity for all Ontarians.

For the past five years, the McGuinty government has been strengthening Ontario's economy by investing in the skills and education of our people, creating partnerships with business, making investments in research and innovation, cutting taxes for business and investing in the infrastructure that keeps our economy moving.

Five-point economic plan

This five-point economic plan has led to a stronger economy that supports stronger public services.

We have higher test scores, smaller class sizes and more students graduating from high school — all of which helps create one of the most advanced and competitive workforces in the world.

Ontario now has more doctors and nurses and shorter wait times — giving us a competitive advantage over much of the world.

Working together, Ontarians have built an economy and a quality of life that are second to none.

Higher test scores, smaller classes, shorter wait times

Mr. Speaker, like other governments around the world, Ontario has seen a serious deterioration in its fiscal position since last fall, caused by the biggest downturn in the global economy since the 1930s.

This has been accelerated by the devastating impact of the financial meltdown in the United States, our largest market.

Simply put, American consumers and businesses are not purchasing as many Ontario goods and services as they used to.

Devastating job losses are hitting many Ontario families hard.

Mr. Speaker, in my hometown, Windsor, I have witnessed, first-hand, friends and neighbours cope with job loss.

I know I speak for all members of this legislature when I say these are not just statistics.

When a family suffers a job loss or when a business closes, it affects all Ontarians.

And while no single industry or no individual government is responsible for this global crisis, each of us has a responsibility to act.

Responsibility to act

The global crisis has reduced our government's revenues significantly.

For 2008–09, Ontario forecasts a deficit of $3.9 billion. This deficit reflects a $2.6 billion revenue decline just since last fall.

Every private-sector forecast sees further contraction of the Ontario economy in 2009.

An economic decline of this nature, plus the need for an aggressive stimulus plan, means that we now project a deficit of $14.1 billion in 2009–10.

Mr. Speaker, history has shown that governments cannot simply spend their way out of recession.

Protecting public services

Returning Ontario to a balanced budget will take time and require difficult decisions.

As we move back to balance, our government will be guided by a number of principles.

First, assumptions about revenues and expenditures will be cautious, prudent and transparent. We will provide quarterly updates to the public.

Second, our government will reduce the size of the deficit in each year subsequent to this. In 2009–10, we will ensure that Ontario's relative deficit and debt are in line with most provinces and our own historical performance. The 2009–10 deficit-to-GDP ratio, deficit-to-revenue ratio and debt-to-GDP ratio are all below those of the United States now and Ontario in the 1990s. And we are in line with Canada today.

Third, our government will control expenditures in a balanced and comprehensive way to protect and deliver services more efficiently. Going forward, the rate of growth in government expenditures will be contingent on growth in the economy. For the past five years, our government has worked hard to keep the rate of growth in expenditure below the rate of growth in revenue.

For the year just ending (2008–09), total tax revenues declined and will likely do the same in the coming year. In the years ahead, even the most optimistic forecasts do not project revenue growth to resume at the pace it did from 2005 to 2008.

Leading by example

Today, our government is introducing a number of restraint measures to build on previous efforts.

This Budget proposes that MPPs lead by example and that our pay be frozen for one year.

Our government is also planning to make OntarioBuys mandatory and permanent. This program will require our hospitals, schools and broader public-sector partners to leverage their buying power and save money on the products and services they buy.

Finally, our government will become more efficient by reducing the size of the Ontario Public Service by five per cent over the next three years through attrition and other measures.

Opportunity and potential

The final principle that will guide us as we return to balance is equity.

All Ontarians must have the opportunity to reach their full potential.

Ontario's strength comes from its people and so we need to ensure that all Ontarians can participate to the fullest in the new economy.

Mr. Speaker, to confront the current economic challenge, our government has designed a stimulus package that creates jobs today and enhances Ontario's future competitiveness.

Creating jobs today

Today's Budget commits $32.5 billion over the next two years for new infrastructure that will support more than 300,000 jobs.

This Budget increases training support for the unemployed right now.

In addition to creating more than 100,000 summer jobs for students this year, we will expand training and literacy programs and propose to make the Apprenticeship Training Tax Credit the most generous in Canada.

At the same time, we recognize that average federal benefits for unemployed Ontarians are more than $4,000 a year less than in other provinces.

Summer jobs for students

Ontarians demand their fair share of Employment Insurance from the federal government so that the people of this province are treated the same as people right across Canada.

Mr. Speaker, we are taking immediate steps to help manufacturing and small business. For example, we are extending the writeoff for new machinery and equipment and providing a 100 per cent writeoff for new computers.

This Budget also provides assistance to the agricultural sector and to northern communities, with investments to improve infrastructure, and supports the forest products and mining sectors with initiatives to help increase our exports.

Mr. Speaker, our Budget will create jobs now all around Ontario. The next task is to ensure we are ready for the jobs of tomorrow.

Ontario's economy must become even more competitive, innovative and sustainable.

The Green Energy and Green Economy Act, if passed, will make it easier to bring renewable energy projects to life and, most importantly, would create some 50,000 new jobs in the first three years.

To take advantage of Ontario's emerging green economy, this Budget proposes more than $300 million in initiatives. These would include an Emerging Technologies Fund; enhancing the Innovation Demonstration Fund; a strategy to help prepare workers for tomorrow's green-collar jobs; and new research to promote green economic development.

Creating green jobs

Mr. Speaker, innovation is the key to unlocking tomorrow's jobs.

To build research infrastructure, support life science research, green technologies applied research and genomics research, we will invest more than $700 million.

We will also invest in our successful creative and entertainment sector, helping with tax credits and support for digital media.

Mr. Speaker, Ontario is open for innovation and Ontario is also Open For Business.

Open for innovation and for business

Open For Business is the Ontario government's plan to make government faster and friendlier for families and businesses while at the same time protecting the safety of our communities.

Our plan is to reduce regulatory burden by 25 per cent over the next two years. We will continue to work towards a single securities regulator and promote the further development of Toronto as a global financial centre.

Mr. Speaker, Ontario can only move forward when all of us move forward together.

The McGuinty government has launched a comprehensive strategy to reduce poverty.

Today's economy makes the uphill trek to achieve that goal steeper and more rugged.

Accordingly, to ensure that each of us has the chance to reach his or her full potential, this Budget proposes investment in people, children and families, in social housing, in social services and in low-income tax relief.

As announced last week by my colleague, the Minister of Children and Youth Services, we are proposing to raise the Ontario Child Benefit to $1,100 per child effective July 2009, fully two years ahead of schedule.

Helping Ontario families

The government is proposing to increase social assistance rates by two per cent in 2009–10. To help families, we have raised rates by 11 per cent since 2003.

The Budget also provides improved funding for rent banks — which will help thousands of families stay in their homes.

To help build new homes and improve existing housing for families, seniors and persons with disabilities, the government plans to invest over $1 billion.

When we do return to growth, these investments will help ensure that every Ontarian has the opportunity to participate in the new economy.

Next generation of growth

Mr. Speaker, as a government, as a province and as a people, our attention must turn to building the next generation of growth.

The generation of growth that will attract and create the jobs of the new economy.

The generation of growth that will preserve and enhance the public services we all value.

The generation of growth that allows Ontario to better leverage its enormous advantages to the benefit of all our people.

Mr. Speaker, getting through the challenges that face us will not be easy.

And returning to the economy that we had will not be enough to secure the future we want.

To maintain and enhance the public services that we need, we must build the next generation of growth.

This will not be easy.

Tax reform for a stronger economy

It will not happen overnight. And it is going to take all of us, working together.

Ontarians have a great track record of success when we work together to build a better future for our children.

Our goal is a better future powered by a stronger economy. The next step we must take to get there is tax reform.

Specifically, today we propose three significant tax changes.

First, a single value-added sales tax for Ontario.

Second, permanent personal tax relief and three direct payments to Ontarians as we transition to a single sales tax.

Third, comprehensive corporate tax reforms to permanently and significantly reduce business taxes for large and small enterprises across the province.

Mr. Speaker, more than 130 countries have adopted a value-added tax. Every other country in the Organisation for Economic Co-operation and Development (OECD), save the United States, has a value-added tax — as do four other Canadian provinces. It is the way modern, globally competitive jurisdictions do business.

The Ontario Chamber of Commerce, many experts, research groups and sector associations have called on us to reform our tax system and create a single provincial–federal sales tax.

Significant tax relief

Over the next 15 months, we are planning to implement a single provincial–federal sales tax of 13 per cent.

The single sales tax would begin July 1, 2010.

Let's be clear, Mr. Speaker: overall Provincial government revenue would not increase as a result of this reform package.

Let me also be clear: this reform package provides significant tax relief for Ontarians.

We need to take this step forward.

Direct payments to Ontarians

It is fundamental to building a powerful economy capable of supporting strong public services and a good quality of life for all of us.

During difficult times, Mr. Speaker, Ontarians expect their governments to work together. This single tax is a result of the provincial and federal government working together to foster job creation and economic growth. To support this arrangement, the federal government is providing Ontario with $4.3 billion over two years, as well as considerable flexibility in the construct of the single tax.

We know that, for some items and for some people, it will mean price increases and that is why we will help Ontario families with the transition to a single sales tax.

Today, I am introducing a $10.6 billion package of tax relief for people that includes permanent personal tax cuts and direct payments to Ontarians.

We plan to cut the tax rate on Ontario's lowest tax bracket from 6.05 per cent to 5.05 per cent — a decrease of 17 per cent.

This means Ontarians would pay less on the first $36,848 of taxable income and Ontarians with modest incomes would now pay the lowest income tax rate in Canada.

Ontario families and individuals earning less than $80,000 would see an average 10 per cent cut in personal income tax.

Permanent income tax reductions

In addition, to protect low- and middle-income families, the Province would also introduce a permanent value-added sales tax credit of up to $260 for every adult and child. This sales tax credit would be one of the most generous in Canada.

Taken together, these initiatives would provide an ongoing, permanent tax reduction for people of more than $2.3 billion a year.

In addition to this tax relief, we would exempt a variety of goods from the provincial portion of the single sales tax: children's clothing and footwear, all infant and child car seats, diapers, books and feminine hygiene products.

Exemptions for Ontario families

Finally, to help with the transition to a single sales tax, every eligible family in Ontario with an income below $160,000 would receive three cheques from the Provincial government totalling $1,000. The first cheque would arrive in June 2010, the second just before Christmas that year and the third in June 2011.

Single Ontarians earning less than $80,000 a year would receive three cheques totalling $300.

Mr. Speaker, competing in a globalized economy demands that Ontario businesses be more competitive than ever. We need our businesses to grow stronger and hire more Ontarians.

The single tax would make Ontario more competitive and cut paperwork costs for business by more than $500 million a year.

While our proposed single sales tax will do much to increase business productivity, we need to do much more.

And we will.

Mr. Speaker, small businesses are the backbone of this economy, so we propose an 18 per cent cut to the corporate tax rate for small businesses effective July 1, 2010 — taking the rate from 5.5 per cent to 4.5 per cent.

Strengthening small business

We also plan to eliminate the small business surtax. This clawback is a barrier to growth. Ontario would be the only jurisdiction in Canada to end this barrier to growing businesses.

We also propose to strengthen our businesses by reducing Ontario's corporate income tax rate.

Starting on July 1, 2010, Ontario's general corporate income tax rate would be reduced to 12 per cent — a 14.3 per cent reduction. The general rate would be reduced to 10 per cent in 2013 — which is a further 16.7 per cent reduction.

Ontario's manufacturing and processing rate — which includes all manufacturers as well as forestry, farming, fishing and mining — would be reduced to 10 per cent starting July 1, 2010 — a 16.7 per cent cut in taxes.

Reform for a competitive economy

This unprecedented business tax reform will make Ontario businesses better able to compete and succeed in the global economy.

Once fully implemented, the reform would cut Ontario's tax rate on new business investment in half, making Ontario one of the most competitive jurisdictions in the industrialized world for new investment.

Overall, this is the most important tax reform we can make to inspire growth across all sectors and kick-start the rebuilding of our manufacturing and resource industries.

The result of all this will be a stronger economy to spur job growth, create a green economy and provide us with quality public services as we come out of the global recession.

And make no mistake, Mr. Speaker: we will come out of this recession.

Finally, Mr. Speaker, I need to address three key features of the single sales tax.

To support new housing, homebuyers would receive a rebate on this tax on homes up to $500,000.

To help ensure that our tourism sector has the resources it needs to attract more visitors, and alleviate the impact of the single tax, we will also provide $40 million annually for destination marketing to Ontario tourism regions, once they are established.

We will ensure that Ontario's municipalities, universities, colleges, schools, hospitals, charities and qualifying non-profit sectors would remain fiscally whole.

This comprehensive tax package is simply the single most effective step we can take to create jobs in Ontario and position our economy for future growth.

Essential step to a powerful economy

The tax reforms proposed in this Budget are an essential step towards a powerful Ontario economy — one that will thrive in a global economy.

This reform will help Ontario create the wealth we need to support the best publicly funded schools for all our children and the best public health care for all our families. It will help ensure we have the strongest environmental protection for all our communities and the most compassionate support for our most vulnerable.

Mr. Speaker, now is the right time to do this.

Now is the right time to signal to Ontario businesses that they have a bright future.

Right time for action

Now is the right time to signal to the international investment community that Ontario is a great place to do business.

Now is the right time to signal to Ontarians that stronger businesses will create more jobs — and more jobs help fund quality schools and hospitals.

This tax reform is a step we must take.

Infrastructure is important for jobs now and it will increase our productivity over the long term.

It is not enough.

We need to go further.

We need to move forward.

And today, we are doing just that.

Conclusion

Mr. Speaker, after the recession of the mid-1890s, the harnessing of Ontario's rich water resources for hydroelectric power and the discovery of significant mineral resources helped create a new, more vital economy in this province.

Ontarians rise to the challenge

After the Great Depression of the 1930s, the Ontario economy became more diversified and manufacturing grew exponentially after a long slump.

A Canada-wide recession hit Ontario in the early 1980s and Ontario bounced back faster than the other provinces — we saw GDP rise from recession in 1981 to 7.9 per cent growth in 1984.

After the sharp recession in the early 1990s, Ontario entered a long era of solid economic growth and high employment.

Each generation of Ontarians has risen to the challenge of its day.

Building a powerful economy

I am confident, Mr. Speaker, that our generation will rise to this challenge too.

Because I am confident in Ontarians.

We have seen economic setbacks and, on every occasion, we have risen above them.

Once an outpost of a distant empire, Ontario has become one of the largest sub-national economies of the world.

The task of leading Ontario through this recession — and beyond — to the next generation of growth falls to all of us.

The task of ensuring that the next generation of Ontarians — our children — goes further and reaches higher falls to all of us.

The task of building a powerful Ontario economy falls to all of us.

We will take up that challenge confidently, and with determination, just as those who came before us did.

We are Ontario

Much is at stake.

We can do this.

We have much going for us: we are diverse and strong in every meaningful way.

We have the skills. We have the expertise and we have the drive.

We can do this.

We're Ontario.

Thank you, Mr. Speaker.

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